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**Social development: United Nations Literacy Decade:
education for all**

Implementation of the International Plan of Action for the United Nations Literacy Decade

Note by the Secretary-General

The Secretary-General hereby transmits the report of the Director-General of the United Nations Educational, Scientific and Cultural Organization on the final evaluation of the implementation of the International Plan of Action for the United Nations Literacy Decade, submitted in pursuance of General Assembly resolution 65/183.

* A/68/150.



Implementation of the International Plan of Action for the United Nations Literacy Decade

**Report of the Director-General of the United Nations Educational,
Scientific and Cultural Organization**

Summary

The United Nations Literacy Decade (2003-2012) was proclaimed at the fifty-sixth session of the General Assembly, in 2001, to support collective efforts to achieve the goals of Education for All by 2015. The Decade ended on 31 December 2012.

In accordance with General Assembly resolution 65/183, the present report is submitted to the General Assembly to present key findings of a final evaluation of the implementation of the International Plan of Action for the Decade, conducted in consultation with national Governments and development partners, together with specific recommendations for the post-Decade period.

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I. Introduction

A. Background

1. In recognition of the centrality of literacy to Education for All and of the development and scale of literacy challenges, the United Nations Literacy Decade was proclaimed by the General Assembly by its resolution 56/116 in 2001 as a global framework for catalysing intensive, focused and sustained efforts for the promotion of literacy and literate environments. It recognized literacy as a fundamental human right and a "basic learning need":¹ a key to further learning, a better quality of life and enhanced livelihood opportunities. The Decade's vision, "literacy for all", recognized the need to establish stronger linkages between formal and non-formal education and also between child and adult literacy in policy design and practice.²

2. The United Nations Literacy Decade was implemented by countries and development partners guided by their own plans as well as global frameworks, notably the International Plan of Action for the Decade (A/57/218 and Corr.1) and the International Strategic Framework for Action (2009). The United Nations Educational, Scientific and Cultural Organization (UNESCO) was mandated to serve as the global coordinator for related activities. Themes that received focused attention during the Decade were literacy and gender (2003-2004), literacy and sustainable development (2005-2006), literacy and health (2007-2008), literacy and empowerment (2009-2010) and literacy and peace (2011-2012). The Decade came to an end in 2012.

B. Final evaluation of the implementation of the International Plan of Action

3. The present report sets out the results of the final evaluation of the implementation of the 2002 International Plan of Action and the specific recommendations for the post-Decade period. The final evaluation was based on the following: recommendations of the 2011 United Nations Literacy Decade expert group meeting; consultations with countries and development partners (2012-2013); 129 national progress reports for the *Global Report on Adult Learning and Education* and the final evaluation (2012); previous progress reports submitted to the governing bodies of the General Assembly and UNESCO, including the midterm Decade report (A/63/172); and other relevant publications and documents.

4. The present report reviews progress made in the area of literacy, takes stock of how specific structures and activities for the coordination, implementation, advocacy and monitoring of the United Nations Literacy Decade contributed to that progress, and illustrates major gains made in key areas of action identified in the International Plan of Action. It highlights key issues for the shaping of future agendas and action. Given the diverse levels at which and ways in which countries and partners contributed to the Decade and the multiple factors that facilitated progress, this report does not accord sole attribution to the Decade. At the same time, it highlights the Decade's catalytic effect.

¹ See World Declaration on Education for All (1990).

² See A/57/218.

II. Literacy in today's world

A. Concepts of literacy

5. Concepts of literacy are diverse and continuously evolving. The United Nations Literacy Decade put forward a renewed vision of literacy relevant to today's society, going beyond the conventional concept of literacy limited to reading, writing and numeracy skills.³ It is increasingly accepted that literacy is a continuum of skill levels, from basic to advanced, acquired throughout a lifespan, as opposed to being defined in terms of a simple dichotomy of literacy vs. illiteracy, and that the demand for higher-order literacy skills is growing.

6. The 2012 national progress reports for the *Global Report on Adult Learning and Education* and the final evaluation of the implementation of the International Plan of Action revealed diverse official concepts of literacy. The conventional concept is still in wide use, as well as the idea of functional literacy, which links literacy with socioeconomic development.⁴ In many countries, the practical use of the concepts of literacy in policies and programmes has become broader in order to meet diverse demands in the contemporary world.⁵ Within equivalency programmes and national qualification frameworks, efforts were made to identify a minimum threshold of basic literacy in the various contexts, going beyond the conventional set of skills. Some recent views about literacy, such as the UNESCO 2003 operational definition⁶ and the plural notion of literacy,⁷ provided a good basis for further reflection on the concept.

B. Overview of progress on and the status of literacy

7. Along with the internationally agreed goals and frameworks, notably the Education for All goals and the Millennium Development Goals, the United Nations Literacy Decade ensured longer-term support for literacy. The following provides an account of progress made against the expected outcomes specified in the 2002 International Plan of Action regarding: (a) youth and adult literacy in support of the achievement of Education for All goal 3, on meeting learning needs of young people and adults, and goal 4, on improvement in levels of adult literacy by 50 per cent; (b) achieving gender parity and equality in literacy as a thrust of Education for All goal 5 and Millennium Development Goal 3, on gender parity and equality; (c) child literacy in support of the attainment of Education for All goal 2 and Millennium Development Goal 2, on universal primary education, as well as Education for All goal 6, on the quality of education for achieving recognized and measurable learning outcomes, especially in basic literacy and life skills; (d) enriched literate environments; and (e) improved quality of life. Particular focus is placed on three

³ See UNESCO, Recommendation concerning the International Standardization of Educational Statistics (1958).

⁴ See UNESCO, Revised Recommendation concerning the International Standardization of Educational Statistics (1978).

⁵ See UNESCO, *Global Report on Adult Learning and Education* (2013).

⁶ See UNESCO, *Aspects of Literacy Assessment: Topics and Issues from the UNESCO Expert Meeting, 10-12 June 2003* (2005).

⁷ See UNESCO, *The Plurality of Literacy and Its Implications for Policies and Programmes* (2004).

major priority groups identified in the Plan: children who are enrolled in school but not acquiring sustainable literacy skills; out-of-school children and young people; and non-literate youth and adults.

1. Youth and adult literacy

8. Overall, the Decade was marked by steady progress, with more young people and adults becoming literate. The UNESCO Institute for Statistics 2013 information paper entitled "Adult and youth literacy: national, regional and global trends, 1985-2015" reveals that the global youth literacy rate, for the population aged 15-24 years, increased from 83 per cent in 1990 to 87 per cent in 2000 and to 90 per cent in 2011.⁸ The number of illiterate young people declined from 168 million in 1990 to 139 million in 2000 and to 123 million in 2011. Likewise, the global adult literacy rate, for the population aged 15 years and older, increased from 76 per cent in 1990 to 82 per cent in 2000 and to 84 per cent in 2011, while the absolute number of illiterate adults fell from 881 million in 1990 to 782 million in 2000 and to 774 million in 2011. Given the increase in the world adult population by some 40 per cent between 1990 and 2010,⁹ this was considerable yet inadequate progress. The fact that the youth literacy rate was greater than the adult literacy rate in almost 140 countries indicates the positive impact of national efforts to enhance access to education, but also points to the need for a focus of attention on adult literacy.

9. This positive global picture, however, masks disparities across regions and countries and different time periods. All regions reduced the number of illiterate adults except South and West Asia and sub-Saharan Africa, where their number actually increased. These regions together host three quarters of the world's illiterate adults and almost 90 per cent of illiterate youth. Disparities also exist in the developed world. One in five young people in Europe had poor literacy skills in 2009.¹⁰ One in five adults in Europe and some 160 million adults in countries belonging to the Organization for Economic Cooperation and Development (OECD)¹¹ are functionally illiterate.¹²

10. The limitations of official statistics should also be noted, as data obtained through surveys and censuses based on declarations by respondents or third parties, or on completed years of schooling, may overestimate actual levels of literacy, and thus the number of literate persons.

11. Initial findings of the 2013 Literacy Assessment and Monitoring Programme of the UNESCO Institute for Statistics provided a more nuanced picture of the level of literacy skills. Its measurement of reading comprehension (prose literacy) levels, using a three-level scale, revealed that at the time of the survey, the proportion of adults with no skills or having mastered only the lowest levels was 29 per cent in Paraguay, 26 per cent in Mongolia and Palestine, and 20 per cent in Jordan, even though those countries had adult literacy rates of more than 93 per cent.

⁸ Data presented in this section are from the 2013 UNESCO Institute for Statistics information paper based on 2011 data, unless otherwise indicated.

⁹ According to the United Nations Population Division.

¹⁰ See Organization for Economic Cooperation and Development and Statistics Canada, *Literacy for Life: Further Results from the Adult Literacy and Life Skills Survey* (2011).

¹¹ See UNESCO, EFA Global Monitoring Report 2012: *Youth and Skills: Putting Education to Work*.

¹² See final report of the European Union High-level Group of Experts on Literacy (2012).

12. With respect to current trends, 743 million adults, mainly in South and West Asia and sub-Saharan Africa, and another 98 million young people will lack basic literacy skills in 2015. It is projected that only 30 of the 134 countries and territories considered will reach or exceed Education for All goal 4, a 50 per cent reduction in adult illiteracy rates, with the rest missing the target.

2. Gender parity and equality in literacy

13. The progress being made towards gender parity and equality, in particular gender parity at the primary school level, is encouraging. The proportion of girls in the total number of out-of-school children of primary school age dropped from 58 per cent in 2000 to 54 per cent in 2011. But 68 countries have not achieved gender parity in primary education, with girls being disadvantaged in 60 of them, and 97 countries have not achieved such parity at the secondary level.¹³ Ensuring that boys and girls experience the same advantages in educational access, treatment and outcomes remains an enduring challenge. While the educational marginalization of girls is still a predominant phenomenon in developing countries, a reverse trend has been observed in some developed and middle-income countries.

14. Substantial improvements in literacy among adult women contributed to progress in the Arab States, East Asia and the Pacific, but gender disparity persisted. Some 61 per cent of the world's illiterate youth were female in 2011. Two thirds of the illiterate adult population are women, with this proportion remaining unchanged over the past 30 years. The gender gap was especially large in the Arab States, South and West Asia and sub-Saharan Africa.

3. Child literacy

15. Learning in school, for which literacy is key, became more accessible to children during the Decade. This led to an increase in the attention given to the quality of learning. Between 1999 and 2010, the global primary net enrolment ratio increased from 84 per cent to 91 per cent.¹⁴ The Arab States, South and West Asia and sub-Saharan Africa made the biggest strides. The rate of survival to the last grade at the primary level increased from 87 per cent in 1999 to 91 per cent in 2009, but the achievement of universal primary education by 2015 is a distant prospect for 29 countries. Disparities in access, attendance and progression across populations persist. In 71 of the 98 countries considered, the net intake rates were less than 80 per cent, and in 16 countries they were less than 50 per cent, indicating that many children were not entering the first grade of primary education at the official entrance age, which increases the risk of early dropout.

16. The number of out-of-school children of primary school age declined from 108 million in 1999 to 57 million in 2011, but another 69 million of lower-secondary age children were not in school in 2011,¹⁵ and the progress made in this area has stagnated since 2008. Sub-Saharan Africa was home to 50 per cent of out-of-school children of primary school age. In that region, the continuous expansion of enrolment did not keep pace with the steady increases in the school-age population, resulting in an increase in the number of out-of-school children by

¹³ See UNESCO, EFA Global Monitoring Report 2012: *Youth and Skills: Putting Education to Work*.

¹⁴ Ibid.

¹⁵ According to the UNESCO Institute for Statistics database, May 2013.

0.7 million between 2008 and 2011. In contrast, the number of out-of-school children of primary school age in South and West Asia decreased from 13 million in 2008 to 12 million in 2011. On the basis of the current trend, it is estimated that almost one in two out-of-school children of primary age worldwide will probably never enter school.

17. In terms of skill levels, there were some positive signs of progress. Results from large-scale assessments such as the Southern and Eastern Africa Consortium for Monitoring Educational Quality (SACMEQ) and the Programme for International Student Assessment indicated overall steady progress in the reading skills of children and young people worldwide. Of the world's 650 million children of primary school age, 120 million do not reach grade 4, and the 130 million who are in school are failing to learn the basics, graduating with unsustainable literacy skills.¹⁶ Some reading assessments conducted in developing countries point to the fact that many children cannot read even one letter after one year of schooling. These children are at risk of not progressing in school systems or dropping out, eventually adding to the existing population of illiterate adults.

4. Literate environments

18. Literate environments were gradually enriched during the Decade, providing literacy materials as well as means and opportunities to apply, sustain and advance literacy skills for the benefit of society. Also enhanced were physical, sociocultural and political environments, through supportive legislation and policies for the promotion of languages, book publishing and media. Between 2006 and 2010, newspaper circulation rates increased in such regions as Asia and Latin America, while they declined in developed countries, where more people had access to the Internet.¹⁷ In Asia and the Pacific, 170,000 community learning centres or non-formal education centres were established. However, there is still much to be done. The results of the SACMEQ III project show that only 3 per cent of pupils in the sixth grade had their own reading and mathematics textbooks in the United Republic of Tanzania in 2007, while the rest either had no textbook or shared one with others. In Kenya, Uganda and Zimbabwe, one in five pupils had his or her own textbook.

19. The Decade witnessed considerable improvements in terms of virtual literate environments, with information and communications technology becoming more accessible and affordable, although the digital divide still exists. For example, the number of people with mobile-phone subscriptions almost tripled to 6,411 million in 2012, with faster progress made in developing countries.¹⁸ This advancement opened up opportunities for the use of information and communications technology to enrich learning environments and called for an expansion in the scope of literacy learning to include digital and information competencies.

5. Improved quality of life

20. Through their political, social, economic, human and cultural benefits for individuals, families and societies, enhanced literacy skills help improve quality of

¹⁶ See UNESCO, EFA Global Monitoring Report 2012: *Youth and Skills: Putting Education to Work*.

¹⁷ See World Association of Newspapers and News Publishers, *World Press Trends 2011*.

¹⁸ According to data provided by the International Telecommunication Union.

life. Evidence shows that a child born to a literate mother is 50 per cent more likely to survive past age 5, and that an extra year of schooling increases an individual's earnings by up to 10 per cent. Many literacy programmes have had the following impacts: increased willingness on the part of parents to educate their own children; more effective use of communication and decontextualized language; improved family health; more productive livelihoods; empowerment; increased self-confidence and autonomy; enhanced democratic participation and citizenship; and the fostering of cultural identity.¹⁹ Although measuring improvements in quality of life and impacts on social development, peace and poverty reduction is a complex task, a more literate world is closely associated with better quality of life.

III. Coordination, implementation, advocacy and monitoring of the United Nations Literacy Decade

21. Overall, the Decade inspired a number of specific activities aimed at its coordination, implementation, advocacy and monitoring, which generated a significant amount of momentum. At the same time, the Decade could have had a much greater impact if literacy had been better integrated into the global developmental framework, notably the Millennium Development Goals. In addition, different levels of ownership on the part of countries and partners affected their levels of commitment.

A. Coordination and implementation

22. UNESCO was mandated to take a coordinating role in stimulating and catalysing activities at the international level.²⁰ It set up an international team as a technical sounding board on the Decade in 2003-2004. This was later replaced with an expert group that provided specific inputs into the mid-Decade review and the final evaluation. A number of supporting structures at the regional and country levels were also established.

23. UNESCO utilized Education for All coordination mechanisms as key platforms to enable it to fulfil its role as the global coordinator for Education for All. The focus placed on literacy by several meetings of the High-level Group on Education for All, the Thematic Working Group on Education for All, the Global Education for All Meeting and the Education for All Global Monitoring Reports raised the profile of literacy. Also used were the Collective Consultation of Non-Governmental Organizations on Education for All; the E9 Initiative, which placed a special focus on literacy in 2010-2011; and the United Nations Decade of Education for Sustainable Development (2005-2014). The Sixth International Conference on Adult Education, held in Belém, Brazil, in 2009, and its follow-up activities boosted commitment and action with respect to adult literacy.

24. As a strategic framework for the implementation of the International Plan of Action for the United Nations Literacy Decade, UNESCO launched the Literacy

¹⁹ See H. Abadzi, *Adult Literacy: A Review of Implementation Experience* (2003); A. Robinson-Pant, *The Benefits of Literacy* (2005); and UNESCO, *Global LIFE Midterm Evaluation Report 2006-2011: Looking Forward with LIFE* (2012).

²⁰ See General Assembly resolution 56/116.

Initiative for Empowerment 2005-2015. Focusing on 36 countries²¹ that had adult literacy rates of less than 50 per cent or adult illiterate populations of more than 10 million, the Initiative served as a catalyst to enhance commitment, strengthen capacities, forge strong partnerships and allow for mutual learning. The momentum was sustained by a series of events organized to mobilize greater support for the Decade. The White House Conference on Global Literacy, convened in 2006 by Laura Bush, the Honorary Ambassador of the Decade, was attended by 30 first ladies, 39 ministers of education and other high-level representatives. The subsequent six UNESCO Regional Conferences in Support of Global Literacy, held in 2007 and 2008 in Azerbaijan, China, India, Mali, Mexico and Qatar, and the 2008 White House Symposium on Advancing Global Literacy, with the attendance of Princess Laurentien of the Netherlands, first ladies from China, Mali and Mexico and ministers, contributed to the mobilization of renewed commitments on the part of countries and partners. The results of the UNESCO global literacy challenge event in 2008 highlighted the need for urgent action to address youth and adult illiteracy.

25. Moreover, collective global efforts resulted in the establishment of synergies between the United Nations Literacy Decade and other United Nations decades, notably the United Nations Decade of Education for Sustainable Development, and in the further integration of the literacy agenda into global debates and ongoing consultations on the post-2015 education and development agendas. The Global Education First Initiative, launched by the Secretary-General in 2012, is catalysing additional support. In the setting of the post-2015 development agenda, the emphasis given by the current global frameworks, notably the Millennium Development Goals, to primary education, youth literacy and gender parity, leading to a relative neglect of adult literacy and the quality of literacy learning, should be reviewed in order to promote a holistic vision of literacy across the lifespan of the individual.

26. The relatively small UNESCO budget for the United Nations Literacy Decade was complemented by the contributions of partners, including from Japan, the United States of America and other donors supporting the UNESCO Capacity Development for Education for All programme.

B. Advocacy

27. At the global level, various platforms and opportunities were used to advocate literacy, including International Literacy Day (8 September), World Teachers' Day (5 October), World Book and Copyright Day (23 April) and International Women's Day (8 March). The UNESCO International Literacy Prizes (the UNESCO King Sejong Literacy Prize and the UNESCO Confucius Prize for Literacy) helped to increase the visibility of excellent efforts around the world. In 2009, adult literacy received a boost when Global Action Week and the Sixth International Conference on Adult Education were organized as part of the Global Campaign for Education. A report compiled by ActionAid International in 2005 and based on a Global Campaign for Education research project entitled "Writing the wrongs" was a positive step forward, setting 12 adult literacy benchmarks aimed at improving the

²¹ The Initiative initially focused on 35 countries, to which South Sudan was added upon its establishment in 2011.

quality of literacy learning and monitoring. In many instances, civil society organizations and coalitions of non-governmental organizations such as the Collective Consultation of Non-Governmental Organizations on Education for All and the Global Campaign for Education continued to be powerful advocates of literacy.

28. Laura Bush, the former First Lady of the United States, supported the United Nations Literacy Decade as its Honorary Ambassador, raising awareness across the world. The UNESCO Special Envoy on Literacy for Development, Princess Laurentien of the Netherlands, and UNESCO Goodwill Ambassadors Grand Duchess Maria Teresa of Luxembourg and Princess Caroline of Hanover of Monaco also championed the cause of literacy. The United Nations Children's Fund (UNICEF) Goodwill Ambassador Shakira Mebarak lent support by advocating children's education. Recently, the Global Education First Initiative, which seeks high-level advocates for education, has helped to galvanize support for every child's right to a quality education.

29. At the country level, a wide array of advocacy activities were carried out. More than 70 countries organized advocacy events during the Decade.²² The majority of the countries surveyed undertook media campaigns and produced publications, leaflets and posters, with positive impacts. In Senegal, for example, advocacy led to an increase in the percentage of the budget allocated to literacy in the 10-year education plan from 0.1 per cent in 2005 to 1.9 per cent in 2007. Nearly half of the countries surveyed expressed the view that the Decade had accelerated country-level advocacy efforts.

C. Monitoring

30. In collaboration with countries and partners, UNESCO played a key role in monitoring the implementation of the International Plan of Action for the Decade, notably through progress reports submitted to the General Assembly and to its own governing bodies. The UNESCO Institute for Statistics continued to be the major source of official literacy data. The annual Global Monitoring Reports were vital in monitoring progress made on the six Education for All goals and on specific themes, including literacy, educational marginalization and skills. Other reports, such as the Human Development Reports of the United Nations Development Programme (UNDP), the *State of the World's Children* reports of UNICEF and the World Development Reports of the World Bank, monitored related issues. Also contributing to the monitoring process were a midterm review of the UNESCO Literacy Initiative for Empowerment (2012) and the *Global Report on Adult Learning and Education* (2009 and 2013), focusing on adult literacy; the Education for All midterm reviews conducted at the regional level; and the country reports prepared for the eighth and ninth ministerial review meetings of the E9 Initiative, held in 2010 and 2012.

²² According to national progress reports for the *Global Report on Adult Learning and Education* and the final evaluation (2012).

IV. Evaluating progress in the key areas of action

31. This section outlines progress made in the six key areas of action identified in the 2012 International Plan of Action for the United Nations Literacy Decade: policy, programme modality, capacity-building, research, community participation, and monitoring and evaluation. Resource mobilization and international support are also highlighted. In addition, it takes into consideration the three strategic objectives set out in the International Strategic Framework for Action (2009) and the six areas highlighted in the Belém Framework for Action, adopted at the Sixth International Conference on Adult Education (2009).

A. Policy

1. Political will and commitment

32. Globally, stronger political will and renewed commitment with regard to literacy were demonstrated during the Decade through a number of high-profile declarations and pronouncements, including the outcome documents of the aforementioned meetings related to Education for All, the UNESCO regional conferences and the High-level International Round Table on Literacy held in 2012.

33. Legal frameworks also reflected countries' commitments to literacy. Almost 87 per cent of the 111 countries reporting data had laws supporting adult literacy,²³ while many countries continued to implement relevant normative instruments, such as the UNESCO Convention against Discrimination in Education and the Convention on the Rights of the Child. Several countries, including Afghanistan, Iraq, Myanmar, Senegal and South Sudan, made literacy a State responsibility codified within their Constitutions.²⁴ New legislative measures were introduced in countries such as Argentina, Bolivia, the Democratic People's Republic of Korea, Djibouti, Latvia and Liberia. Moreover, several regional normative instruments incorporated literacy, including the African Youth Charter (2006). The adoption of the Convention on the Rights of Persons with Disabilities in 2008 helped to address the learning needs of the United Nations Literacy Decade priority groups, as also reflected in the current Constitutions of Colombia and the Dominican Republic.

2. Policy and planning

34. Reflecting political will, many countries made efforts to put in place appropriate literacy policies and to link those policies with broader national education and development policies. An analysis of 44 national education plans conducted in 2009 showed that approximately 70 per cent of them included the adult literacy component, with most focusing on marginalized populations.²⁵ Between 2009 and 2012, 61 per cent of the 116 countries reporting data had either developed or reviewed national adult literacy action plans.²⁶ Moreover, countries such as Chad, Egypt, Gambia, Guinea and Pakistan integrated literacy into their poverty

²³ Ibid.

²⁴ See UNESCO, "Literacy from a right to education perspective" (2013).

²⁵ See UNESCO, "Educational marginalization in national education plans" (2009).

²⁶ According to national progress reports for the *Global Report on Adult Learning and Education* and the final evaluation (2012).

reduction strategy papers.²⁷ Other countries, such as Morocco, Mozambique, Papua New Guinea and Yemen, integrated literacy into their national development policies.

35. A global trend worth highlighting is a move towards a more holistic approach to literacy, with an increased recognition of non-formal education as an alternative mode of delivery that addresses the needs of a diverse range of learners in the context of lifelong learning. Bridging formal, non-formal and informal modes, countries have developed frameworks with which to recognize, validate and accredit (RVA) the outcomes of non-formal and informal learning. In 2012, 69 per cent of the 127 countries reporting data had developed RVA policy frameworks.²⁸ New initiatives in this direction were the online RVA Observatory and RVA guidelines developed by the UNESCO Institute for Lifelong Learning as well as the 2009 European guidelines and the 2012 European Council recommendations regarding the validation of non-formal and informal learning.

36. During the Decade, deep concern about the literacy skills of the marginalized, such as women, indigenous populations and people living in extreme poverty, was translated into inclusive policies and interventions. For example, language policies and practice promoting learning in multilingual situations improved. Strong mother-tongue-based literacy programmes in Bangladesh, China, India and Nepal, education strategies for Maori and Pacific Islanders in New Zealand, the use of 25 local languages as languages of instruction in Ethiopia, and the bilingual curriculum framework employed in Niue are cases in point. But the adequacy and the quality of teachers and materials in local languages continued to pose challenges.

3. Governance and management

37. A number of countries restructured their education governance and programme management systems. Burkina Faso, Guatemala and Pakistan, for example, have decentralized literacy programmes, creating greater transparency and better connections to local actors and circumstances. Supported by the Literacy Initiative for Empowerment, countries such as Benin, Burkina Faso, Egypt, Mali and Senegal created special entities and task forces and increased their budgetary allocations to literacy.²⁹

38. Moving towards a holistic approach to literacy, many countries, such as China, Côte d'Ivoire, Ireland and Uganda, promoted intersectoral cooperation. Yet, with responsibility for youth and adult education often diffused across several ministries and national entities, coordination and harmonization remain an enduring challenge.

39. Countries strengthened their institutional frameworks for literacy, and key roles were played by national specialized entities in countries such as France, Mongolia, the Netherlands and New Zealand in involving and coordinating stakeholders.

40. Despite these positive changes, gaps remain between legislation, policy and practice. The 2009 *Global Report on Adult Learning and Education* highlighted the trend of the incoherence and fragmentation of adult literacy policies and action,

²⁷ See UNESCO, Global LIFE Midterm Evaluation Report 2006-2011: *Looking Forward with LIFE* (2012).

²⁸ According to national progress reports for the *Global Report on Adult Learning and Education* and the final evaluation (2012).

²⁹ See UNESCO, *Advancing Literacy: A Review of LIFE 2006-2009* (2009).

along with inadequate coordination within government and between Governments and partners. While child literacy enjoyed a growing and renewed focus, youth and adult literacy struggled to gain a desirable space in national policies and budgets.

B. Programme modality

41. Literacy programmes of good quality must be available, accessible, acceptable and adaptable to all. During the Decade, a variety of literacy programmes based on different concepts of literacy and pedagogical approaches were implemented, in response to specific needs of different population groups in different contexts.

1. Preschool and in-school programmes for children

42. Many countries strengthened early childhood care and education interventions, to lay solid foundations for the acquisition of literacy skills and for later learning and to help break the vicious circle of intergenerational marginalization from the earliest stage of life. By enhancing the quality of the mother-child relationship and the amount of time that parents spend reading to children, a number of family literacy programmes influenced children's language development. Numerous interventions addressed diverse needs arising from the expansion of primary education, the increased need for post-secondary learning opportunities, and the inadequate quality of learning. Supported by the World Food Programme (WFP) and other partners, for example, school feeding programmes had a positive influence on the cognitive and physical development of 368 million children each year.³⁰

2. Programmes for out-of-school children and young people

43. Many interventions for out-of-school children were undertaken within and beyond the education sector to overcome economic barriers, improve accessibility and enrich the quality of learning. The School Fee Abolition Initiative, launched by UNICEF and the World Bank in 2005, supported Burundi, the Democratic Republic of the Congo, Ethiopia, Ghana, Kenya, Malawi, Mozambique and the United Republic of Tanzania in this regard. Stipends and cash transfers gave a major boost to girls' education under World Bank-financed projects in Bangladesh, Malawi and Pakistan. The global initiative of UNICEF and the UNESCO Institute for Statistics to address the needs of out-of-school children and the Educate a Child initiative, launched by Sheikha Moza Bint Nasser al-Missned of Qatar, are other examples.

44. A positive trend observed was the growth of flexible alternative learning opportunities, including equivalency programmes for general or vocational education, outside the framework of formal education.

45. In order to reach the unreached, innovative ideas including the effective use of information and communications technology were being implemented in countries such as Pakistan and Senegal, where literacy programmes and teacher training were facilitated by mobile phones.

³⁰ According to data provided by WFP (2013).

3. Programmes targeting illiterate youth and adults

46. Accumulated experiences and new research deepened understanding of diverse context-specific needs of adult learners, resulting in improvements in the design, content, pedagogical approaches and mode of delivery of learning programmes.

47. The Decade witnessed increased awareness of the importance of learner-centred approaches and of situating learning in the real-life contexts of learners. Literacy programmes were linked with water and sanitation training in Ghana, income-generating activities in Kenya and workplace skills in Slovakia. Functional literacy programmes were an integral part of the International Labour Organization (ILO) Training for Rural Economic Empowerment programme adapted in Asian and African countries, as well as of its support for the upgrading of informal apprenticeships for young people in Africa. The embedding of literacy in vocational training proved to be effective in terms of increased livelihood opportunities.

48. Various approaches were undertaken in this area. Programmes aimed at providing a second chance for primary education were started in many countries, including Romania and Saint Lucia. Intergenerational approaches to learning had impacts on the literacy skills and the quality of life of both parents and children in countries such as Iran (Islamic Republic of), Namibia, Nepal, Norway, Turkey, Uganda and the United States. Several countries, including Chad, Egypt, Nigeria, India, Iraq and Venezuela (Bolivarian Republic of), opted for national literacy campaigns to reduce adult illiteracy.

49. Certain programmes started before the beginning of the Decade continued to be implemented, including Cuba's "*Yo sí puedo*" (yes, I can) programme, combining radio and television distance learning with face-to-face learning in 15 Latin American and African countries; ActionAid's Regenerated Freirean Literacy through Empowering Techniques approach, adapted in more than 70 countries; the "*faire-faire*" approach in sub-Saharan Africa, which outsources literacy activities to community-based organizations; and Frank Laubach's "each one teach one" method, which supports learner-centred instruction in countries such as Bangladesh.

C. Capacity-building

50. Lack of individual and institutional capacities, one of the obstacles to universal literacy, was addressed through specific programmes or as a component of broader interventions. UNESCO support for national efforts through the Literacy Initiative for Empowerment and the Capacity Development for Education for All programme led to the development of a comprehensive policy on non-formal education in Bangladesh and an action plan for literacy in Cambodia, as well as to the integration of literacy into national education sector plans in Burkina Faso and Chad.

51. The centrality of teachers to meaningful learning, in particular for children, was placed high on the global agenda, as reflected in the establishment of the International Task Force on Teachers for Education for All in 2009. But teachers and facilitators for adult literacy and non-formal programmes tended to be undervalued in many national education systems, while non-governmental organizations played a key role in the training of non-formal teachers. UNESCO also supported the capacity development of non-formal teaching personnel.

52. A shortage of qualified teachers and education professionals remained a major challenge.³¹ Approximately 112 countries needed to expand their teaching workforces by a total of 5.4 million primary school teachers by 2015.³² The teaching force for non-formal learning and adult literacy also needed to expand, with more attention given to their status, working conditions and professional development.

D. Research

53. The knowledge base regarding literacy and lifelong learning continued to expand through advancements in research, including qualitative, applied and interdisciplinary research. Journals; publications, notably the Education for All Global Monitoring Report 2006: *Literacy for life*; databases on effective literacy practice, such as Project Litbase of the UNESCO Institute for Lifelong Learning, and researcher networks, including the Adult Learning Documentation and Information Network, contributed to the sharing of knowledge. The creation of the Education Research in Africa Award in 2012 by the Association for the Development of Education in Africa and the African Development Institute is an example of the efforts made to recognize excellence in research.

54. In order to enhance evidence-based policymaking and practice, however, further efforts are required to build research capacities and networks that connect different actors, and mobilize more resources, and to explore topics that need further investigation, such as the benefits, use and impact of literacy; literacy skills relevant to evolving societies and their assessment; and the cost and benefits of quality literacy programmes.

E. Community participation

55. Local community involvement was promoted by Governments, non-governmental organizations, the private sector and other civil society organizations as a vital means for making literacy relevant to people's lives. A total of 55 per cent of the 119 countries reporting data involved learners in discussions about national literacy policies and plans, while 80 per cent of the 116 countries reporting data involved local communities in the planning of adult literacy activities.³³ Community learning centres became hubs of literacy action in many communities. Community involvement was an enabling factor of Save the Children's Literacy Boost programme for children and of Room to Read's support for 7.9 million children through the creation of libraries and the provision of local-language books. The relevance of literacy programmes was considerably enhanced where local communities were involved, but funding remains a challenge.

³¹ According to national progress reports for the *Global Report on Adult Learning and Education* and the final evaluation (2012).

³² See UNESCO, EFA Global Monitoring Report 2012: *Youth and Skills: Putting Education to Work*.

³³ Ibid.

F. Monitoring and evaluation

1. National information systems managing education and literacy

56. Education management information systems (EMIS) were strengthened in almost all developing countries. A non-formal education management information system programme developed by UNESCO in 2001 was adapted in several countries. In a number of countries, such as Cambodia and the United Republic of Tanzania, it was being integrated into EMIS, covering both formal and non-formal education.

2. Monitoring and evaluation of literacy programmes

57. Many countries reported improved monitoring and evaluation systems in the management of literacy programmes. Of the 129 countries reporting data, 73 per cent collected information on enrolment in literacy programmes, 69 per cent on the completion of such programmes and 60.5 per cent on attendance.³⁴ For the enhanced effectiveness of programmes, however, learning outcomes also need to be assessed. Some 57 per cent of the countries reported that learning outcomes were measured by teachers and facilitators, only 23 per cent measured outcomes by standard tests, and 42 per cent measured outcomes by standard tests for certification purposes. The UNESCO Institute for Lifelong Learning action research on measuring learning outcomes in some sub-Saharan African countries is an example of support for improving the measurement of learning outcomes in adult literacy programmes.

3. Assessment of child literacy

58. The Decade witnessed growing interest in gaining an understanding of competences and skill levels. More countries — most of them developed and middle-income countries — participated in international large-scale assessments such as the Progress in International Reading Literacy Study, the Trends in International Mathematics and Science Study and the OECD Programme for International Student Assessment. Regional large-scale assessments were also enriched, such as SACMEQ, the Latin American Laboratory for Assessment of the Quality of Education and the Programme for the Analysis of Education Systems of the Conference of Education Ministers of Countries Using French as a Common Language. SACMEQ and the Programme started to coordinate their activities, resulting in the inclusion of common test items. While these large-scale assessments had an impact in terms of curriculum content, performance standards, classroom instruction and teacher development, many countries face the challenge of designing sustainable and useful assessment systems.

59. In parallel, the number of small-scale assessments grew. In India, for example, Pratham's sample-based household survey reached nearly half a million children in 2012. The Early Grade Reading Assessment, developed by RTI International with support from the United States Agency for International Development and the World Bank, is used in almost 50 countries. In Kenya, Uganda and the United Republic of Tanzania, Uwezo tested the literacy skills of some 350,000 children. UNESCO

³⁴ According to national progress reports for the *Global Report on Adult Learning and Education* and the final evaluation (2012).

began to support the development of a writing assessment through the Latin American Laboratory for Assessment of the Quality of Education and through collaboration with the University of La Laguna in Spain.

60. Several related global initiatives also emerged. In 2012, the Learning Metrics Task Force started its work to recommend main domains of learning, including literacy and communication, and types of measures to be undertaken. The UNESCO Institute for Statistics created the Observatory of Learning Outcomes to monitor global trends in students' learning achievements. Other, related global initiatives created included the "Learning Counts" seminar and General Education System Quality Analysis/Diagnosis Framework of UNESCO; the World Bank's Systems Approach for Better Education Results initiative; and the Assessment and Teaching of 21st-Century Skills project, launched by Cisco, Intel and Microsoft in 2009.

4. Assessment of adult literacy

61. In recognition of the limitations of traditional adult literacy statistics, attempts were made to measure literacy skills. Building on the International Adult Literacy Survey and the Adult Literacy and Life Skills Survey, the UNESCO Institute for Statistics developed the Literacy Assessment and Monitoring Programme in order to apply direct testing of literacy levels. Furthermore, building on the methodology used in those surveys, OECD developed a more comprehensive international survey of adult skills, the International Assessment of Adult Competencies, to assess the key cognitive skills and social, physical and learning skills required in contemporary societies. The first round, involving 24 developed countries, will be completed in 2013, while the second round, involving 10 countries, started in 2012.

G. Financing for literacy

1. National resources

62. Overall, more domestic and external resources were mobilized for education, of which literacy education is a part. Globally, spending on education increased by an average of 2.7 per cent per year from 1999 to 2010.³⁵ The rate of increase was higher, at 7.2 per cent, in low-income countries, where aid amounted to as much as one fifth of the education budget. For example, the United Republic of Tanzania, where the primary net enrolment ratio doubled, increased spending on education as a percentage of gross national product from 2 per cent in 1999 to 6.2 per cent in 2010.

63. In places, more domestic funds were mobilized for the achievement of adult literacy. In 28 Literacy Initiative for Empowerment countries, budgets for literacy and non-formal education increased between 2005 and 2011.³⁶ Between 2009 and 2010, national budgetary expenditure for adult literacy increased in half of the 32 countries reporting data, stagnated in 6 and decreased in 10.³⁷ As the United

³⁵ See UNESCO, EFA Global Monitoring Report 2012: *Youth and Skills: Putting Education to Work*.

³⁶ See UNESCO, Global LIFE Midterm Evaluation Report 2006-2011: *Looking Forward with LIFE* (2012).

³⁷ According to national progress reports for the *Global Report on Adult Learning and Education* and the final evaluation (2012).

Nations Literacy Decade midterm review shows, many countries allocate only 1 per cent of national education budget to adult literacy. Among several costing exercises with respect to adult literacy programmes, the Global Campaign for Education-ActionAid International study conducted in 2005 indicated an annual cost required per learner of \$50 to \$100. Although there are various context-specific variables, these figures indicate the magnitude of the funding required.

2. External resources

64. The overall rise in education expenditure can also be attributed to external resources. Between 2002 and 2010, aid to education increased by 77 per cent to \$13.5 billion, of which \$5.8 billion was directed at basic education. However, aid to basic education stagnated at this level between 2008 and 2011, with only \$1.9 billion being allocated to support low-income countries in 2010. This was far from the estimated \$26 billion required per year for the poorest countries to achieve universal basic education of good quality by 2015.

65. Determining the amount of external resources mobilized for adult literacy is not easy, but diverse partners provided funding for literacy, including non-governmental organizations and civil society. The flow of aid to adult literacy was limited, reflecting the low priority accorded to it by development partners. In order to achieve only Education for All goal 4, on youth and adult literacy in sub-Saharan Africa and South and West Asia, requires an estimated \$1 billion in aid per year.³⁸ To fill this huge gap, non-traditional donors such as private sector entities can play a much greater role. Integrating a youth and adult literacy programme into a country's basic education plan has helped to secure external funding support for adult literacy, as in Burkina Faso.

3. Effective use of existing resources

66. Countries and partners took a number of measures to enhance effectiveness in the use of existing funds. For example, following the successful model of Uganda, a public expenditure tracking survey was carried out in Burkina Faso. Countries such as Argentina, Brazil, Chile and Colombia developed regulations aimed at ensuring clear and transparent mechanisms for the flow of funds across various levels of national education systems.

67. Lack of adequate funding remains a critical impediment. The Belém Framework for Action (2009) states that for every single year that the average level of education of adults is raised, there is a corresponding increase of 3.7 per cent in long-term economic growth and a 6 per cent increase in per capita income. A study carried out in Latin America revealed that the average annual earnings of persons with no schooling and of persons with six years of schooling were \$440 and \$1,100, respectively.³⁹ It is also important to take account of opportunity costs and the negative consequences of illiteracy for health, social participation and citizenship, with concomitant cost implications. Experiences and knowledge gained during the Decade highlighted the critical importance of placing financing for literacy in broader education and development contexts.

³⁸ See Jan van Ravens and Carlos Aggio, "The Costs of Dakar goal 4 for developing and 'LIFE' countries" (2005).

³⁹ See Economic Commission for Latin America and UNESCO Regional Office for Latin America and the Caribbean, *The Social and Economic Impact of Illiteracy* (2010).

H. International support and partnerships for the promotion of literacy

68. The promotion of literacy and literate environments is a collective act. While national Governments, which recognize, respect and protect the right to literacy, were the prime movers in this regard, development partners played significant roles at the country, regional and global levels.

69. Positioning literacy as a human right and a means to achieve sustainable development and poverty reduction, United Nations entities provided various forms of normative and operational support. As the global coordinator of the Decade and as an implementing agency, UNESCO mobilized its networks, led relevant global and regional initiatives and encouraged intersectoral approaches with respect to tackling such issues as literacy for indigenous people and the use of information and communications technology for the acquisition of literacy skills.

70. UNICEF supported countries in improving basic education and literacy through its cross-sectoral approaches, sharpening its focus on girls and out-of-school children, especially in post-conflict countries, through such initiatives as "child-friendly schools" and the United Nations Girls' Education Initiative.

71. In the early days of the Decade, the World Bank continued to implement 7 large-scale adult literacy projects and 14 other multi-component projects, covering 11 million illiterate persons. During the Decade, the Bank implemented 256 primary education projects, 49 pre-primary education projects and 29 youth and adult literacy projects. Other, related efforts included poverty reduction strategy papers, the Global Partnership for Education, the Systems Approach for Better Education Results (SABER) initiative, and ensuring a robust global knowledge base.

72. UNDP supported literacy by providing broader development perspectives and frameworks, including through its support for United Nations country teams. In Pakistan, "adult education and non-formal basic education" was one of the four areas of the joint United Nations programme for education (2008-2010); with a \$260.8 million budget. Recently, it has supported some 46 countries through the Millennium Development Goals Acceleration Framework.

73. Other agencies also contributed to the goals of the United Nations Literacy Decade: the Food and Agriculture Organization of the United Nations, by promoting education for rural population; ILO, by integrating literacy into its programmes on vocational training, enhancing informal apprenticeships and entrepreneurship, supporting teachers and promoting the use of indigenous language; the Joint United Nations Programme on HIV/AIDS, by supporting the development of educational responses as an HIV prevention strategy and carrying out its work to improve the dignity, quality of life and life expectancy of people living with HIV; the United Nations Population Fund, notably by carrying out its work on sexual and reproductive health, reducing maternal mortality and promoting the understanding of population dynamics; WFP, through its school feeding programme; and the World Health Organization, through the promotion of health literacy. The creation of the United Nations Entity on Gender Equality and the Empowerment of Women in July 2010 was a positive step forward in the promotion of literacy for girls and women.

74. Global initiatives provided new impetus. The Global Partnership for Education, as a funding mechanism, helped low-income countries to strengthen

children's literacy as an integral part of national plans and, more recently, as an area of focus in its strategic plan for 2012-2015. Between 2003 and 2013, the Partnership allocated more than \$3.1 billion to education. Many bilateral donors continued to support basic education, focusing on child and youth literacy.

75. With their wealth of expertise and insight, non-governmental organizations played a major role in fostering innovative service delivery, resource mobilization, active policy dialogues and advocacy, as well as in the capacity-building of local organizations. Private sector partners have increasingly supported literacy initiatives in both technical and financial terms. Other civil society partners, such as universities, research institutes, parliamentarians, journalists and communities, helped to advance the literacy agenda. Intersectoral cooperation and South-South and triangular cooperation made greater impacts.

76. A lesson learned during the Decade pointed to the critical need to enhance the coordinated efforts of partners on the basis of their comparative advantages in the drive towards universal literacy. As we approach the 2015 deadlines for the achievement of the Education for All goals and the Millennium Development Goals, collective reflection is required for the positioning of literacy in future education and development agendas.

V. Shaping future agendas

77. The final evaluation of the implementation of the International Plan of Action for the United Nations Literacy Decade has highlighted the following needs for future action:

(a) Mobilizing stronger political and financial commitment and ensuring coordinated action:

(i) Heightening political will and strengthening financial commitment to literacy. The evaluation strongly recommends that Governments enhance political and financial commitment, in particular for youth and adult literacy and non-formal education. Development partners are called upon to support such efforts technically and financially through the fostering of diverse partnerships, involving traditional donors; non-State providers such as non-governmental organizations, communities and the private sector; and the exploration of new funding modalities;

(ii) Stepping up coordinated global action, advocacy and partnership. There is an urgent need to put in place a global framework linked with regional and country-level activities to coordinate and sustain collective efforts, with increased clarity about the role and responsibility of each partner;

(iii) Integrating literacy into future global developmental architecture as an education and development imperative. It is critical to integrate literacy into future agendas for education and development. Goal-setting at all levels needs to move progressively towards the inclusion of a holistic vision of literacy and a clear focus on the quality of literacy learning;

(b) Intensifying collective efforts through enhanced education systems and interventions:

- (i) **Strengthening national lifelong learning systems, underpinned by a three-pronged approach to literacy.** Further advancement towards universal literacy and mastery of higher-order literacy skills requires enhanced lifelong learning systems that allow for synergies between formal and non-formal education, underpinned by a three-pronged approach to literacy, simultaneously: improving the quality of basic education for children and adolescents; providing alternative learning opportunities for out-of-school children, adolescents and adults; and enriching literate environments;
- (ii) **Enhancing non-formal education and alternative learning to reach the unreached.** With a view to meeting diverse learning needs through flexible, effective and context-specific approaches, the evaluation recommends the enhancement of non-formal education and alternative learning and the exploration of innovative modes of delivery and pedagogy, including the effective use of information and communications technology;
- (iii) **Improving the quality of literacy teaching and learning for all.** It is imperative to provide meaningful literacy learning opportunities through a systemic approach to quality improvement, encompassing such elements as curriculum, teachers/facilitators, materials, language of instruction, learning environments and assessment;
- (iv) **Intensifying efforts to address non-literate and functional illiterate adults.** In promoting an inclusive literate world, adult literacy, which has hitherto been relatively neglected, needs to be given a greater thrust;
- (v) **Focusing more sharply on the learning needs of girls and women.** It is critical to redress female illiteracy through gender- and context-specific policies and programmes aimed at literacy. Positive discrimination measures for boys and men are also required, where appropriate;

(c) **Building a robust knowledge and technical base:**

- (i) **Revisiting the concepts of literacy to enhance the relevance of learning in evolving contemporary societies.** The evaluation calls for further exploration of the concept of literacy and the identification of a minimum threshold of basic literacy as a building block for sustainable development;
- (ii) **Improving literacy monitoring and assessment.** Evidence-based policymaking and quality learning require the enhancement of the knowledge and information base through improved literacy monitoring, assessment and research. There is an urgent need to enhance national assessment systems and improve the direct measurement of literacy skills, as well as to develop a global network or a platform for knowledge-sharing among policymakers, practitioners and researchers.

VI. Recommendations

78. The final evaluation of the implementation of the International Plan of Action for the United Nations Literacy Decade calls for sustained collective efforts to address evolving literacy agendas at the country, regional and global levels. The gains made during the Decade need to be consolidated and expanded

through additional technical and financial support and the full integration of literacy into development architectures at all levels.

79. It is strongly recommended that countries and development partners continue to promote literacy and literate environments through multi-pronged approaches, with a focus on marginalized groups, in particular girls and women.

80. In order to coordinate the global efforts and act in synergy, UNESCO could create a global multi-stakeholder partnership in support of national efforts to accelerate progress towards the attainment of the unfinished agenda with a view to 2015 and beyond. As a forum for collective action, such a partnership would facilitate the mobilization of political commitment as well as of technical and financial resources. It would foster innovation in literacy. It would also catalyse national actions to strengthen the institutional base and to enrich literacy policies and programmes for the realization of the vision of a literate, inclusive, sustainable world.

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Follow-up to the outcome of the Millennium Summit**A life of dignity for all: accelerating progress towards
the Millennium Development Goals and advancing the
United Nations development agenda beyond 2015****Report of the Secretary-General***Summary*

The present report is submitted pursuant to General Assembly resolution 65/1, in which the Assembly requested the Secretary-General to report annually on progress in the implementation of the Millennium Development Goals until 2015 and to make recommendations for further steps to advance the United Nations development agenda beyond 2015.

Renewed efforts are essential for achieving the Millennium Development Goals by the end of 2015. While providing an assessment of progress to date, the report also identifies policies and programmes that have driven success in the achievement of the Goals and can contribute to accelerating it. These include emphasizing inclusive growth, decent employment and social protection; allocating more resources for essential services and ensuring access for all; strengthening political will and improving the international policy environment; and harnessing the power of multi-stakeholder partnerships.

A new post-2015 era demands a new vision and a responsive framework. Sustainable development — enabled by the integration of economic growth, social justice and environmental stewardship — must become our global guiding principle and operational standard. This is a universal agenda that requires profound economic transformations and a new global partnership. It also requires that the international community, including the United Nations, embrace a more coherent and effective response to support the agenda. As we make the transition to this new era, we need to continue the work begun with the Millennium Development Goals and ensure that extreme poverty is ended within a generation. In keeping with United Nations principles, this post-2015 framework can bring together the full range of human aspirations and needs to ensure a life of dignity for all.

* A/68/150.



I. Introduction

1. The world's quest for dignity, peace, prosperity, justice, sustainability and an end to poverty has reached an unprecedented moment of urgency.
2. In 2000, the States Members of the United Nations agreed on a bold vision for the future that reaffirmed the fundamental values of freedom, equality, solidarity, tolerance, respect for the planet and shared responsibility.
3. That vision, enshrined in the Millennium Declaration (General Assembly resolution 55/2) and rooted in the Charter of the United Nations, recognized the need to pool efforts as never before and to advance on three fronts simultaneously: development, peace and security, and human rights. Global challenges, local solutions; shared burden, shared gain: this remains the credo of international action for our collective well-being.
4. Among the promises made in the Millennium Declaration was a compelling pledge to spare no effort to free all women, men, girls and boys from the abject and dehumanizing conditions of poverty. The call itself was not new; the commitment to better standards of living is part of the purposes and principles of the United Nations. But what was new was the sense of possibility — the conviction that through a combination of targets, tangible investments, genuine action and political will, countries and people working together could end poverty in all its forms.
5. The Millennium Development Goals gave expression to this resolve. Since their adoption, Governments, partners and an inspiring constellation of groups and individuals around the world have mobilized to tackle the many dimensions of poverty. Those efforts have generated unprecedented advances in human development.
6. There has been substantial progress in achieving the Millennium Development Goals and several successes in reaching specific targets globally and in individual countries. However, the prospects for achieving all of the Goals differ sharply across and within countries and regions. More than a billion people still live in extreme poverty. Far too many people face serious deprivation in health and education, with progress hampered by significant inequality related to income, gender, ethnicity, disability, age and location. The prolonged global economic downturn and violent conflicts in recent years have exacerbated poverty, inequality and exclusion. Biodiversity loss, the degradation of water, drylands and forests and the intensifying risks of climate change threaten to reverse our achievements to date and undermine any future gains.
7. We must do everything we can to achieve the Millennium Development Goals by the end of 2015. That work is unfinished and must continue in order to secure the well-being, dignity and rights of those still on the margins today, as well as of future generations. By meeting our existing commitments, we will be in the best possible position from which to agree upon and implement a universal agenda for sustainable development after 2015.
8. At the same time, the world has changed radically since the turn of the millennium. New economic powers have emerged, new technologies are reshaping our societies and new patterns of human settlement and activity are heightening the pressures on our planet. Inequality is rising in rich and poor countries alike.

9. A new era demands a new vision and a responsive framework. Sustainable development, enabled by the integration of economic growth, social justice and environmental stewardship, must become our global guiding principle and operational standard. This framework can bring together the full range of human aspirations and needs. It offers a template for mutually reinforcing approaches to global challenges. Sustainable development is, in short, the pathway to the future.

10. So the challenge remains, even as it has taken on new complexity and increased in scale: we must fulfil our promises and meet the aspirations of the world's peoples, and we must summon the unity to realize the dream of the Charter and the Millennium Declaration. Ours is the first generation with the resources and know-how to end extreme poverty and put our planet on a sustainable course before it is too late.

11. The transition to sustainable development must not mean any diminishment whatsoever in the commitment to ending poverty. As underscored in the outcome document of the United Nations Conference on Sustainable Development, held in Rio de Janeiro, Brazil, in 2012 (General Assembly resolution 66/288), poverty eradication is an indispensable requirement for sustainable development. This is a matter of basic justice and human rights. It is also a historic opportunity. If ours is the generation that can end poverty, there should be no deferring this essential mission, no shrinking away from the task. In a world of great wealth and technological advances, no person anywhere should be left behind. No person should go hungry, lack shelter or clean water and sanitation, face social and economic exclusion or live without access to basic health services and education. These are human rights, and form the foundations for a decent life.

12. Nor can progress be achieved or sustained amid armed conflict, violence, insecurity and injustice. These ills often have roots in social and economic deprivation and inequality. In the same vein, poverty can be a precursor and breeding ground of instability. We know that upholding human rights and freeing people from fear and want are inseparable; it is imperative that we do more to act on this basic truth.

13. The present report is intended to galvanize greater efforts to end poverty and achieve sustainable and inclusive growth. We will need enlightened and courageous leadership in the halls of government and the engagement of responsible businesses and civil society the world over. I have drawn considerable inspiration from a dynamic United Nations-led process — a global conversation launched in 2012 on the priorities of a new development agenda that would build on the Millennium Development Goals. In a series of global, regional and national consultations in nearly 100 countries and through a social media platform, more than a million people have shared their views on “the world they want”. I am profoundly grateful to all who expressed their hopes and expectations and offered ideas and constructive criticism. The United Nations is strongly committed not just to listening to those voices, but also to amplifying and acting on what we have heard and learned.

14. In defining a new agenda, Member States can also benefit from the insights of a set of illuminating reports. My High-level Panel of Eminent Persons on the Post-2015 Development Agenda, co-chaired by Susilo Bambang Yudhoyono, President of Indonesia, Ellen Johnson-Sirleaf, President of Liberia, and David Cameron, Prime Minister of the United Kingdom of Great Britain and Northern Ireland, called for major transformative economic and institutional shifts: a new

global partnership and a data revolution for monitoring progress and strengthening accountability.

15. Reports by the Sustainable Development Solutions Network, the Global Compact Office, the United Nations System Task Team on the Post-2015 United Nations Development Agenda, the regional commissions and our partners in civil society and academia have also provided important inputs and recommendations for the formulation and content of the processes ahead.

16. The common ground in these contributions far outweighs any differences. Indeed, it is possible to see the emerging outlines of a new sustainable development agenda: universal in nature yet responsive to the complexities, needs and capacities of individual countries and regions; bold in ambition but simple in design; combining the economic, social and environmental dimensions while putting the highest priority on ending poverty and reducing inequality; protective of the planet, its biodiversity, water and land; rights-based, with particular emphasis on women, young people and marginalized groups; eager for new and innovative partnerships; and supported by pioneering approaches to data and rigorous accountability mechanisms. Guided by this far-reaching vision, a limited set of goals with sustainable development at the core, as called for at the United Nations Conference on Sustainable Development, could be constructed to encapsulate current challenges and the priorities of the new agenda and to guide the transformation we need.

17. In the present report we take stock of where we are and where we need to go — first, in the time that remains until the end of 2015, and second, in the period beyond that. As a contribution to the discussions and negotiations of Member States, I offer my sense of the lessons we have derived from the Millennium Development Goals and set out a number of possible elements for consideration in charting a way forward. I look forward to a rich process of consultation and debate as the crucial year of 2015 draws near.

18. We are all aware of the vulnerabilities and perils that define daily life across the world. But there is also simultaneously a sense of wondrous potential made possible in part by science and technology but even more by our own hard work and devotion to common progress. Based on everything I have seen and heard during my six and a half years as Secretary-General, I am convinced that, collectively, we have the leadership, conviction and courage to address short-term uncertainties while seizing the opportunity for long-term change. In that spirit of hope and resolve, I offer the present report to the membership of the United Nations.

II. Achieving the Millennium Development Goals and accelerating progress

19. The Millennium Development Goals are our promise to the world's poorest and most vulnerable. They have succeeded in placing people at the centre of the development agenda.

20. We have made remarkable progress. Many countries — including some of the poorest — have aligned their policies and resources with the Goals to make unparalleled gains. Several critical targets have already been met or will be met by the end of 2015, both at the aggregate level and in individual countries. Sizable gains have occurred in even the poorest countries.

21. However, progress has been insufficient and highly uneven. Rural areas and marginalized groups continue to lag behind on virtually all goals and targets. Countries in or emerging from conflict, disaster or instability face significant challenges. In addition, the economic and financial crisis has complicated efforts, including by putting pressure on official development assistance.

22. Yet progress continues. In the *Millennium Development Goals Report 2013*, it is stressed that despite challenges and gaps, the agenda embodied by the Goals retains great power in engendering collective action for faster results.

A. Where do we stand on the Goals?

23. At the global level, poverty and hunger have been reduced significantly. In developing regions, the proportion of people living on less than \$1.25 a day fell by more than half, from 47 per cent in 1990 to 22 per cent in 2010, with the majority living in rural areas. Much of this progress, however, has been made in a few large countries, primarily China and India. Moreover, even if the poverty target has been met, 1.2 billion people are still living in extreme poverty. For example, despite recent strong economic growth and declining poverty rates in sub-Saharan Africa, the number of people living in poverty is rising, and the region is still vulnerable to shocks that can rapidly erode gains.

24. The target of halving the percentage of people suffering from hunger by 2015 is within reach. The proportion of undernourished people in developing regions fell from 23.2 per cent in the period from 1990 to 1992 to 14.9 per cent in 2010-2012. However, one in eight people remain chronically undernourished, and one in four children suffers from stunted growth because of malnutrition.

25. We risk failing to keep our promise to enable all children to go to school. The number of children out of primary school declined from 102 million to 57 million between 2000 and 2011. But progress has slowed significantly over the past five years. Without renewed efforts, the target of universal primary education by 2015 seems beyond reach, particularly in conflict-affected countries. Half the world's out-of-school children live in sub-Saharan Africa, with the gap largest for children and adolescents from the poorest households. Much stronger efforts are needed to improve the quality of education and provide lifelong learning opportunities, especially for girls and women, those belonging to ethnic minorities, persons with disabilities and children living in conflict-affected areas, rural areas or urban slums.

26. Women and girls are major drivers of development. Yet challenges to achieving gender equality and women's rights remain significant. In many developing countries, girls are denied their right to primary education. Women have been gaining employment in non-agricultural sectors, but often in less secure jobs with fewer social benefits than those held by men. In both the public and private spheres, women continue to be denied opportunities to influence decisions that affect their lives. Gender-based violence contravenes women's and girls' rights, undermines development and is an affront to our common humanity.

27. Despite significant progress globally and in many countries, a renewed commitment is needed to improve the health and life prospects of mothers and children. The mortality rate for children under 5 dropped by 41 per cent between 1990 and 2011 — a significant achievement, yet far short of the target of a two-thirds reduction. The maternal mortality rate fell by 47 per cent over the past

two decades — again, important progress, but still far from the target of 75 per cent. Intensified efforts are needed to reach the most vulnerable women and children and ensure their sexual and reproductive health and reproductive rights, including full access to basic health services and sexual and reproductive education.

28. New HIV infections declined by 21 per cent globally over the past decade, and close to 10 million people living with HIV are receiving lifesaving antiretroviral treatment. Expanded treatment and prevention yielded a 25 per cent reduction in AIDS-related deaths between 2005 and 2011. Yet 2.5 million new infections still occur each year and in many parts of the globe, millions lack access to treatment. The last decade saw a 25 per cent fall in mortality rates from malaria globally, sparing the lives of an estimated 1.1 million people. Between 1995 and 2011, 51 million tuberculosis patients were treated successfully, saving 20 million lives.

29. Some of the targets for ensuring environmental sustainability have been achieved: the target for improved water sources was met ahead of schedule, and over the past decade over 200 million slum dwellers — double the target — benefited from improved water and sanitation facilities, durable housing or sufficient living space. Furthermore, from 1990 to 2011, 1.9 billion people gained access to a latrine, flush toilet or other improved sanitation facility. With rapid urbanization and population growth, however, the number of slum dwellers is on the rise. Two and a half billion people lack access to improved sanitation, while a billion practise open defecation, a continued source of illness.

30. In all countries, the achievement of Goal 7, on ensuring environmental sustainability, remains at significant risk because of the profound and urgent challenges posed by climate change. Carbon dioxide emissions are more than 46 per cent higher than in 1990. The atmospheric concentration of carbon dioxide has exceeded 400 parts per million, a level not seen in millions of years and threatening the existence of the planet.

31. Biodiversity loss continues at a rapid pace. Freshwater resources are being depleted and fish stocks are overexploited. Land degradation and desertification, ocean acidification and the loss of species and forests continue at an alarming rate.

32. As shown in the forthcoming MDG Gap Task Force Report 2013, progress towards a global partnership for development has fallen short of expectations. Following an encouraging rise in official development assistance since 2000, over the past two years aid flows have declined. Despite significant debt relief for many countries, the debt-servicing burden of some low-income countries remains intolerably high. Progress in improving market access for many developing countries has been slow, and “aid for trade” has not escaped the impact of reduced official development assistance. Despite welcome gains in connectivity, a substantial digital divide remains between developed and developing regions.

B. Which policies and programmes have best driven progress?

33. It is crucial to know what works and what does not. More than a decade of experience has painted a revealing picture. Strong national ownership and well-managed policies, supported coherently by partners at all levels, has underpinned progress in achieving the Millennium Development Goals. Policies that foster robust and inclusive economic growth, accompanied by measures to improve the access of poor and excluded people to quality basic services, have produced

gains in many countries. Much has been learned by formulating and implementing those policies. Applying these lessons will be important for making more rapid progress in the time that remains.

Emphasizing inclusive growth, decent employment and social protection

34. Inclusive economic growth with decent employment and decent wages has proven to be a prerequisite for achieving the Millennium Development Goals, particularly Goal 1, on eradicating extreme poverty and hunger. Progress in East Asia has been strong, and several countries in Latin America and Africa have successfully combined economic growth and redistributive policies.

35. Targeted investments in public health systems, fighting disease, education, infrastructure and agricultural productivity have all played important roles in achieving the Goals and promoting economic growth. These interventions work in a synergistic way and are therefore highly effective in integrated development programmes. Cash transfers targeting poor and marginalized families have also bolstered progress.

36. In East Asia, reforms in the agricultural sector have lifted hundreds of millions of people out of extreme poverty. Many Governments in the region have also adopted policies that increase social spending, expand social protection and raise the minimum wage.

37. Policies promoting rural employment have proved to have positive results in terms of poverty reduction, food consumption, household spending on education and health, debt reduction and asset creation.

38. In addition, programmes in Latin America and South-East Asia that have combined increased food production and distribution with skills training, microfinance, land distribution and nutrition education programmes have had positive impacts on child mortality and maternal health.

Allocating more resources for essential services and ensuring access for all

39. To accelerate progress on education, some countries have eliminated school fees and reduced the indirect costs of schooling. In Africa and the Middle East, policies have targeted orphans and other vulnerable children with vouchers for uniforms and books. In Asia, countries have scaled up stipend programmes and introduced financial support mechanisms for ethnic minority students.

40. In West Africa, complementing investments in infrastructure with female literacy campaigns to overcome resistance to girls' education in rural areas led to a significant increase in the rate of enrolment of girls in primary schools.

41. Some countries have expanded access to primary education while tackling gender disparities at the same time. Achieving the parity target by 2015 is within reach if entrenched gender disadvantages can be overcome, particularly in countries where early marriage remains pervasive.

42. Countries in Sub-Saharan Africa have launched nationwide midwifery schemes to train and deploy tens of thousands of front-line health workers to accelerate progress in preventing maternal and child mortality.

43. Improved national strategies supported by additional financial resources have contributed to faster progress on the Millennium Development Goals in the area of

health in many countries. The Global Fund to Fight AIDS, Tuberculosis and Malaria, the GAVI Alliance and the United States President's Emergency Plan for AIDS Relief have played a major role, complementing national efforts.

44. Investments in human and physical infrastructure for the public health-care sector are paying off in South Asia, where services have been provided free of charge in facilities close to patients.

45. Policies supporting free universal access to quality primary health care for women and children have reduced child mortality in some countries in Sub-Saharan Africa, especially when special attention is given to reducing deaths from malaria, pneumonia, diarrhoea and measles and to rapidly scaling up the provision of insecticide-treated bednets, measles vaccine and vitamin A supplements.

46. National initiatives have proven to be effective in achieving water and sanitation targets. In South-East Asia, partnerships between local governments, builders and community leaders have been launched to meet the need for drinking water and sanitation. Access to latrines has increased significantly, driven by community empowerment activities, strengthened institutions and a community hygiene campaign.

Strengthening political will and improving the international policy environment

47. The global nature of many current challenges requires coordinated global action. I am very concerned by any developments or trends that threaten the global partnership for development, a core part of the Millennium Development Goal framework. There is an urgent need to stop and reverse the two-year contraction of official development assistance and aid for trade, especially for the least developed countries. Stakeholders should strengthen coordination and follow through on commitments to and for effective aid delivery, as well as cracking down on illicit capital flows, returning stolen assets and stemming tax avoidance and evasion.

48. I urge the members of the World Trade Organization to redouble their efforts to reach a development-oriented conclusion of the Doha Round of trade negotiations and improve duty-free, quota-free market access for products of least developed countries. Further efforts are needed to ensure timely debt relief for critically indebted developing countries, thus improving their chances of achieving the Millennium Development Goals.

49. A stronger partnership is also needed among governments, pharmaceutical companies, research facilities and philanthropic organizations to make essential medicines more affordable and available in public health facilities, including using the provisions available to developing countries in the Agreement on Trade-Related Aspects of Intellectual Property Rights.

50. Limiting and reversing the increase in the average global temperature to 2 degrees Celsius above pre-industrial levels in line with international agreements demands bold, coordinated national and international action. The United Nations Framework Convention on Climate Change contains commitments and guidance, most notably the agreement of Governments to negotiate an ambitious, legally binding global agreement by 2015 that will cover all countries of the world in a fair way. The situation calls for full and urgent adherence to what was agreed.

51. Bolder measures are equally urgent on other environmental sustainability targets, including those related to biodiversity, water, land use and forests. Where commitments already exist, we need faster implementation of the corresponding multilateral environmental agreements.

52. With support from the international community, developing countries should accelerate efforts to improve the transfer of and access to information and communications technology, as well as to lower its cost, especially in key service-delivery areas. In order for technology transfers to countries embracing deep structural economic transformations to be successful, the institutional and human capacity gaps will need to be addressed at the local level.

53. The multi-stakeholder partnership model has emerged as a promising way to share burdens, catalyse action and bring all relevant actors to bear in addressing specific problems. We need to mobilize more action to deliver on commitments and exploit the full potential of the partnership approach.

C. Accelerating progress towards the Goals to 2015

54. Fulfilling our existing commitments and promises on the Millennium Development Goals must remain our foremost priority. Member States, with the continued support of development agencies, civil society and the private sector, should and can take bolder action to accelerate progress.

55. Together, we need to focus on those Goals that are most off-track and on countries that face particular development challenges, including the least developed countries, landlocked developing countries, small island developing States and countries affected by or recovering from conflicts or disasters. In so doing, we must pay particular attention to the needs and rights of the most vulnerable and excluded, such as women, children, the elderly, indigenous people, refugees and displaced families, as well as people with disabilities and those living in poor rural areas and urban slums.

56. The preceding section highlighted some successful strategies for achieving the Millennium Development Goals. They show that accelerating progress requires national ownership and international commitment, with the right policies backed by reliable, timely financial resources and people-centred multi-stakeholder partnerships. Countries should make every effort to mobilize domestic resources. At the same time, these resources should be supplemented by external support where necessary.

57. In April I launched the campaign "MDG Momentum — 1,000 Days of Action" as a spur to achieve the gains we need by 2015. My appeal seeks to give additional impetus to several key initiatives that were already under way in response to the call for acceleration made at the 2010 high-level plenary meeting of the General Assembly on the Millennium Development Goals.

58. The Millennium Development Goals Acceleration Framework, a coordinated effort by the United Nations Development Group, is firmly rooted in national ownership and supports the systematic identification of bottlenecks and local solutions. Acceleration plans are being implemented in more than 46 countries across all regions, covering a range of goals and targets and bringing together a full spectrum of actors. Those efforts are assessed by the United Nations system in

collaboration with the World Bank under the umbrella of the United Nations System Chief Executives Board for Coordination.

59. In one sub-Saharan African country, an acceleration plan on maternal health is being implemented through the revised national reproductive health policy and protocol. This is backed by a multi-pronged strategy that includes the use of mobile telephones for diagnosis and referrals and partnerships with local road transport associations to facilitate the travel of women in labour.

60. When implemented at the subnational level, the Acceleration Framework can also help to address disparity and inequality, as well as underlying causes such as discrimination and sociocultural exclusion. In one South American country, provinces and municipalities are implementing acceleration plans to address local priorities, such as poverty reduction and the economic empowerment of women, where progress lags behind the national level.

61. The €1 billion Millennium Development Goals initiative of the European Union has been supporting countries in the African, Caribbean and Pacific regions to accelerate progress on the Goals that are the most off-track: eradicating hunger, improving maternal health, curbing child mortality and improving access to water and sanitation. Nearly 50 have been supported to date.

62. Regional initiatives are an increasingly important part of the picture. In 2012, the African Union Commission adopted a road map on shared responsibility and global solidarity to accelerate progress in the response to HIV, tuberculosis and malaria. The actions in the road map are organized around three strategic pillars: diversified financing, access to medicines and enhanced health governance. Similarly, in 2012, the Association of Southeast Asian Nations adopted a road map for the attainment of the Millennium Development Goals focusing on five key areas: advocacy and linkages, knowledge, resources, expertise, and regional cooperation and public goods.

63. Every Woman Every Child, a multi-stakeholder partnership launched in 2010, seeks to save the lives of 16 million women and children by 2015. The United Nations secured commitments of \$20 billion from more than 250 partners, including governments, multilateral organizations, the private sector and civil society. A new partnership between governments and United Nations agencies, "Committing to child survival: a promise renewed", was launched to reduce the under-5 mortality rate to fewer than 20 deaths per 1,000 live births in all countries by 2035.

64. The Sustainable Energy for All initiative, launched in 2011, aims to provide universal access to modern energy, double the global rate of improvement in energy efficiency and double the share of renewables in the global energy mix, all by 2030. Over \$50 billion has been committed from all sectors to make this a reality, and more than 70 countries have signed up.

65. The Global Agriculture and Food Security Programme mobilizes resources to scale up agricultural assistance to low-income countries. The Zero Hunger Challenge, launched at the United Nations Conference on Sustainable Development, calls for universal access to adequate food year-round, steps to prevent childhood stunting, a sustainable transformation of food systems, a doubling of productivity and incomes among smallholder farmers and drastic reductions in food losses and waste. Through the "Scaling Up Nutrition" movement, a partnership effort involving governments, civil society, the United Nations system, business and researchers,

more than 100 partners are supporting 40 countries in their efforts to reduce malnutrition and child stunting.

66. The Global Education First Initiative, launched in September 2012, aims to raise the political profile of education and seeks to ensure access, improve the quality of learning and foster global citizenship.

67. The Call to Action on Sanitation, initiated in March, has provided new momentum on an area that has received inadequate attention. The campaign for universal access to bednets by the end of 2010 made important inroads in tackling malaria. The One Million Community Health Workers campaign in Sub-Saharan Africa is expected to be critical in generating gains across the health-related Millennium Development Goals.

68. The replenishment of the Global Fund in the third quarter of 2013 will be of decisive significance for continued progress against AIDS, tuberculosis and malaria. I call upon all donors, public and private, to do their part to support the Fund at this moment of utmost urgency as well as opportunity.

69. Multi-stakeholder arrangements have proven successful because they expand on traditional partnerships by significantly increasing available resources, improving the effectiveness of their use and increasing policy and operational coherence. To build on those advantages, I have put forward a proposal to Member States for a new United Nations Partnership Facility, which would aim to enhance the Organization's ability to facilitate delivery at scale at both the global and country levels.

D. Making the transition to a new sustainable development agenda that builds on the Goals

70. The adoption of the Millennium Development Goals represented a major shift in galvanizing global political will for poverty eradication. The Goals focused the world's attention on halving extreme poverty and promoting human development by setting priorities, goals and targets. Yet the Goals represent only the halfway mark towards the aim of tackling poverty in all its forms. United Nations projections for 2015 indicate that almost 1.3 billion people will still live in extreme poverty, mothers will continue to die needlessly in childbirth and children will suffer and die from hunger, malnutrition, preventable diseases and a lack of clean water and sanitation.

71. The job we started with the Millennium Development Goals therefore needs to be finished. Careful attention will be needed as we make the transition to an agenda that embraces the three dimensions of sustainable development yet ensures that poverty eradication is its highest priority and that extreme poverty is ended within a generation.

72. Since the Millennium Development Goals were devised, major new challenges have emerged, while existing ones have been exacerbated. Inequality has deepened. Environmental degradation has increased, threatening our common future. People across the world are demanding more responsive governments and better governance and rights at all levels. Migration challenges have grown, and young people in many countries face poor prospects for decent jobs or livelihoods. Conflicts and instability have halted or reversed progress in many countries,

affecting primarily women and children. Organized crime, including trafficking in people and drugs, violates human rights and undermines development. The deepening ways in which the lives of people and countries are linked demand a universal agenda addressing the world's most pressing challenges and seizing the opportunities of a new era.

III. Advancing the United Nations development agenda beyond 2015

A. Vision and transformative actions of the agenda

73. The articulation of a post-2015 development agenda provides an opportunity to place sustainable development where it should be: at the core of humankind's pursuit of shared progress. With a new sustainable development agenda, the world can make many historic achievements: eradicating extreme poverty by 2030, protecting the environment and promoting social inclusion and economic opportunities for all. Ultimately, the aspiration of the development agenda beyond 2015 is to create a just and prosperous world where all people realize their rights and live with dignity and hope.

74. As agreed at the United Nations Conference on Sustainable Development, the framework for sustainable development reflects our commitment to three interconnected objectives: economic development, social inclusion and environmental sustainability. Each of these dimensions contributes to the others and all are necessary for the well-being of individuals and societies. Together, they are meant to enable people to fulfil their potential within the finite resources of our planet.

75. For such a sustainable development agenda to take root, four building blocks need to be agreed upon: (a) a far-reaching vision of the future firmly anchored in human rights and universally accepted values and principles, including those encapsulated in the Charter, the Universal Declaration of Human Rights and the Millennium Declaration; (b) a set of concise goals and targets aimed at realizing the priorities of the agenda; (c) a global partnership for development to mobilize means of implementation; and (d) a participatory monitoring framework for tracking progress and mutual accountability mechanisms for all stakeholders.

76. Decisions on the shape of the next agenda rest with Member States. To support their deliberations, I put in motion an inclusive and transparent process to hear from all stakeholders. Through the efforts of the United Nations Development Group and others, I sought the views of people around the world through consultations in nearly 100 countries, global thematic consultations on 11 issue areas and a global online conversation and "My World" survey. These efforts have reached more than a million people. A large number of civil society organizations and academic institutions worldwide have also actively participated in the discussions.

77. In addition, my High-level Panel of Eminent Persons on the Post-2015 Development Agenda provided critical proposals (see A/67/890, annex). I have made the report available to all Member States and recommend it as an important contribution to this process.

78. I also benefited from the expertise of the science and technology community through the Sustainable Development Solutions Network. The contributions of the

private sector around the world were conveyed through the Global Compact. The United Nations System Task Team, comprising more than 60 agencies and international organizations, conveyed the knowledge and experience of the Organization, while regional perspectives were provided by the regional commissions.

79. Reflecting on many of these inputs, the Open Working Group on Sustainable Development Goals is conducting a series of discussions aimed at formulating goals for sustainable development to be proposed to the General Assembly at its sixty-eighth session.

80. The common ground in the findings of these processes is encouraging. Discussions point to the importance of arriving at a single and coherent development agenda centred on sustainable development, applicable to all countries while taking into account regional, national and local circumstances and priorities.

81. The key elements of the emerging vision for the development agenda beyond 2015 include: (a) universality, to mobilize all developed and developing countries and leave no one behind; (b) sustainable development, to tackle the interlinked challenges facing the world, including a clear focus on ending extreme poverty in all its forms; (c) inclusive economic transformations ensuring decent jobs, backed by sustainable technologies, to shift to sustainable patterns of consumption and production; (d) peace and governance, as key outcomes and enablers of development; (e) a new global partnership, recognizing shared interests, different needs and mutual responsibilities, to ensure commitment to and means of implementing the new vision; and (f) being "fit for purpose", to ensure that the international community is equipped with the right institutions and tools for addressing the challenges of implementing the sustainable development agenda at the national level.

82. Bringing this vision to life will require a number of transformative and mutually reinforcing actions that apply to all countries.

83. **Eradicate poverty in all its forms.** Poverty has many manifestations and is aggravated by discrimination, insecurity, inequality and environmental and disaster risks. Therefore, the eradication of poverty calls for a multifaceted approach, encapsulated in the concept of sustainable development, focusing on both immediate and underlying causes.

84. **Tackle exclusion and inequality.** In order to leave no one behind and bring everyone forward, actions are needed to promote equality of opportunity. This implies inclusive economies in which men and women have access to decent employment, legal identification, financial services, infrastructure and social protection, as well as societies where all people can contribute and participate in national and local governance.

85. **Empower women and girls.** The new agenda must ensure the equal rights of women and girls, their full participation in the political, economic and public spheres and zero tolerance for violence against or exploitation of women and girls. The practice of child marriage must be ended everywhere. Women and girls must have equal access to financial services, infrastructure, the full range of health services, including in the area of sexual and reproductive health and reproductive rights, and water and sanitation; the right to own land and other assets; a safe environment in which to learn and apply their knowledge and skills; and an end to

discrimination so they can receive equal pay for equal work and have an equal voice in decision-making.

86. Provide quality education and lifelong learning. Young people should be able to receive high-quality education and learning, from early childhood development to post-primary schooling, including not only formal schooling but also life skills and vocational education and training.

87. Improve health. Address universal health-care coverage, access and affordability; end preventable maternal and child deaths; realize women's reproductive health and rights; increase immunization coverage; eradicate malaria and realize the vision of a future free of AIDS and tuberculosis; reduce the burden of non-communicable diseases, including mental illness, and road accidents; and promote healthy behaviours, including those related to water, sanitation and hygiene.

88. Address climate change. The international community must reconcile the challenges of mitigating and adapting to climate change while supporting the growth of developing countries. While the worst effects of climate change can still be averted by building the resilience of and investing in those communities and nations most vulnerable to disasters risk, those efforts will require a greatly stepped-up response, in keeping with the principle of common but differentiated responsibilities and respective capabilities. A successful outcome to the intergovernmental climate change negotiations is critical. Every effort must be made to arrive at a legally binding agreement by the end of 2015, as decided in Durban, South Africa, in 2011.

89. Address environmental challenges. Environmental change has compounded problems worldwide, especially in vulnerable countries, reducing their capacity to cope and limiting their options for addressing development challenges. Managing the natural resources base — fisheries, forests, freshwater resources, oceans, soil — is essential for sustainable development. So too is building the resilience of and investing in those communities and nations most vulnerable to disasters, especially in the least developed countries and small island developing States.

90. Promote inclusive and sustainable growth and decent employment. This can be achieved by economic diversification, financial inclusion, efficient infrastructure, productivity gains, trade, sustainable energy, relevant education and skills training. Labour market policies should focus in particular on young people, women and people with disabilities.

91. End hunger and malnutrition. Addressing hunger, malnutrition, stunting and food insecurity in a world experiencing rapid population growth will require a combination of stable and adequate incomes for all, improvements in agricultural productivity and sustainability, child and maternal care and strengthened social protection for vulnerable populations.

92. Address demographic challenges. While the population of developed countries is projected to remain unchanged at around 1.3 billion, the population of developing countries is projected to increase from 5.9 billion in 2013 to 8.2 billion in 2050. Countries with a high rate of population growth are generally on a path of falling fertility, especially as education for girls and sexual and reproductive health services become more widely available. Progress in these areas would enable many households to slow fertility rates, with consequent benefits for health, education, sustainability and the demographic dividend for economic growth. Countries with a

high proportion of young people need to offer education and opportunities for decent work. Countries with an ageing population need policy responses to support the elderly so as to remove barriers to their full participation in society while protecting their rights and dignity.

93. Enhance the positive contribution of migrants. More than a billion people rely on international and domestic migration to improve the income, health and education of their families, escape poverty and conflict and adapt to environmental and economic shocks. Countries receiving migrants can also benefit significantly. Yet many barriers limit the positive effects of migration, including possible large economic and social gains. Discrimination is widespread and the human rights of migrants are often denied at different points in the migration process. The scourge of human trafficking, an unacceptable dimension of migration, must be ended.

94. Meet the challenges of urbanization. Some 70 per cent of the world's population will live in cities by 2050. Urbanization poses the challenge of providing city dwellers with employment, food, income, housing, transportation, clean water and sanitation, social services and cultural amenities. At the same time, living in cities creates opportunities for the more efficient delivery and use of physical facilities and amenities. Rural prosperity, land management and secure ecosystem services should form an integral part of sustainable urbanization and economic transformation.

95. Build peace and effective governance based on the rule of law and sound institutions. Peace and stability, human rights and effective governance based on the rule of law and transparent institutions are outcomes and enablers of development. There can be no peace without development and no development without peace. Lasting peace and sustainable development cannot be fully realized without respect for human rights and the rule of law. Transparency and accountability are powerful tools for ensuring citizens' involvement in policymaking and their oversight of the use of public resources, including to prevent waste and corruption. Legal empowerment, access to justice and an independent judiciary and universal legal identification can also be critical for gaining access to public services.

96. Foster a renewed global partnership. The Millennium Development Goals, in particular Goal 8, on the global partnership for development, speak to the importance of our common humanity and the values of equity, solidarity and human rights. The post-2015 development agenda will need to be supported by a renewed global partnership grounded on such values. As noted in the report of my High-level Panel, "the partnership should capture, and will depend on, a spirit of mutual respect and mutual benefit".

97. The global partnership should finish the job started with Goal 8, including meeting the assistance objective of 0.7 per cent of gross national income, as well as other existing and future intergovernmental agreements, such as the Millennium Declaration, the Monterrey Consensus of the International Conference on Financing for Development, the Principles set out in the Rio Declaration on Environment and Development, the Johannesburg Plan of Implementation and the Istanbul Programme of Action, as well as the outcome of the Ad Hoc Working Group of the Durban Platform for Enhanced Action. All partners should deliver on past commitments, particularly those on official development assistance, climate finance and domestic resource mobilization.

98. The transformative actions of the post-2015 development agenda should be supported by multi-stakeholder partnerships that respond to the sustainable development agenda. These should include not only governments but also businesses, private philanthropic foundations, international organizations, civil society, volunteer groups, local authorities, parliaments, trade unions, research institutes and academia. Such partnerships can channel commitments and actions from a wider set of actors, and their success depends on assigning roles, responsibilities and clear accountability.

99. Official development assistance will remain crucial, including for leveraging other finance, particularly for the least developed countries, landlocked developing countries and small island developing States, many countries in Africa and countries emerging from conflict and disasters. In addition to delivering on past commitments, it will be critical for donors to establish a timetable for meeting official development assistance targets and enhancing development effectiveness, including through the principles and actions set out in the Busan Partnership for Effective Development Cooperation. The impact of official development assistance can be magnified by other sources of finance, including innovative sources.

100. A universal development agenda beyond 2015 will require a robust framework for sustainable development finance including both private and public funding. International efforts are needed to create an environment conducive to business and thus channel capital flows and portfolio investments to the sustainable development agenda, to eliminate illicit financial flows, to enhance the regulation of secrecy jurisdictions and to promote asset recovery. Multilateral development banks have an important role to play in identifying novel sources of sustainable development financing.

101. At the same time, the financing framework for the post-2015 period will require the mobilization of domestic resources, including by broadening the tax base and improving tax administration, including in developing countries, and improving corporate and public governance of extractive industries in resource-rich countries. In addition, the financing framework will require commitment by the public and private scientific and research communities to develop new and transformative technologies. Harnessing science, technology and innovative methods will be central in areas ranging from information and communications technology to transportation, the environment and life-saving medicines.

102. South-South and triangular cooperation will also play a key role. This has increased significantly in recent years and has taken various forms, including infrastructure investment, technical cooperation, joint research and investment and information-sharing.

103. I welcome the Intergovernmental Committee of Experts on Sustainable Development Financing, which will propose options on a strategy to facilitate the mobilization of resources and their effective use. The biennial high-level Development Cooperation Forum and the follow-up to the International Conference on Financing for Development also provide important opportunities for charting a way forward.

104. **Strengthen the international development cooperation framework.** In order to respond to the challenges of funding and implementing a sustainable development agenda, both national and international institutions need to be strengthened to overcome the institutional and operational separation between economic, social and

environmental responsibilities. I particularly welcome, in that regard, General Assembly resolution 67/290, in which the mandate, organizational structure and the working methods of the high-level political forum on sustainable development were defined. There is broad agreement that the forum should bring political support at the highest level to the coordination, coherence, implementation and monitoring of the commitments in a universal sustainable development agenda.

B. Comprehensive monitoring framework and robust accountability mechanisms

105. Strong monitoring and accountability will be crucial for the implementation of the post-2015 development agenda. Governments, especially parliaments, will play a central role. The monitoring and accountability framework can be strengthened through the direct engagement of citizens and responsible businesses making use of new technologies to expand coverage, to disaggregate data and to reduce costs.

106. The availability of information has improved during the implementation of the Millennium Development Goals. Still, there is an urgent need to further improve data collection, dissemination and analysis. Better baseline data and statistics are needed, especially because the post-2015 development agenda will involve measuring a broader range of indicators, requiring new and disaggregated data to capture gaps within and between population groups. Assessing the quality of outcomes should also feature more prominently in a results-based framework. As suggested by my High-level Panel, targets will be considered to have been achieved only if they are met for all relevant income and social groups.

107. In this context, the advances in information technology over the past decade provide an opportunity for a "data revolution", which should enable countries to strengthen existing data sources and develop new and participatory sources of information. Many developing countries will require technical and financial support to build solid statistical systems and capacity so as to take advantage of these new opportunities.

C. Setting goals for the agenda

108. Experience with the Millennium Development Goals shows us that goals can be a powerful way of mobilizing common action. To be effective, they need to be limited in number, measurable, easy to communicate and adaptable to both global and local settings.

109. At the United Nations Conference on Sustainable Development, Member States agreed that the sustainable development goals "should be coherent with and integrated into the United Nations development agenda beyond 2015". The many consultations and reports suggest that a single, balanced and comprehensive set of goals, universal to all nations, which aims to eradicate all forms of poverty and integrate sustainable development in all its dimensions, should form the core of the agenda.

110. The framing of the set of goals for sustainable development will inevitably need to be broader than that of the Millennium Development Goals in order to reflect new challenges. Illustrative goals and targets have been proposed in a range

of reports, including those of the High-level Panel, the Sustainable Development Solutions Network and the Global Compact, and in several initiatives from the research community.

111. Goals and targets should take into account cross-cutting issues such as gender, disability, age and other factors leading to inequality, human rights, demographics, migration and partnerships. The new goals should embrace the emphasis on human well-being and include the use of metrics that go beyond standard income measures, such as surveys of subjective well-being and happiness, as introduced by many countries and the Organization for Economic Cooperation and Development.

D. Towards the formulation and launch of the agenda

112. The special event of the President of the General Assembly to be convened on 25 September will review current efforts to achieve the Millennium Development Goals and provide a timely opportunity for rallying political support for their acceleration. The event will also serve as an occasion to reflect on the broad contours of the development agenda beyond 2015.

113. Member States should therefore use the special event to generate clarity and a solid momentum for the important discussions and decisions that will follow. In the outcome of the event they could issue a call for convening a United Nations summit in 2015 to adopt the new development agenda. To that end, the Assembly could request its President to hold consultations on a procedural resolution for initiating preparations for the summit, in which it could request the Secretary-General to prepare a report on modalities, format and organization for submission to the Assembly by March 2014. That report could serve as the basis for the Assembly's consultations on a comprehensive resolution on the timing, scope, format, participation and expected outcome of a summit in 2015.

114. The General Assembly could launch the final phase of the intergovernmental consultations on a post-2015 development agenda at its sixty-ninth session. Those consultations could draw on the outcomes of several intergovernmental events, including the high-level meeting on disability and development, to be held in September, the high-level dialogue on international migration and development, to be held in October, the third International Conference on Small Island Developing States, the climate change summit in 2014 as well as the next conference on financing for development. Our goal must be to make 2015 a defining moment for people and the planet and to show what the United Nations and Member States, working together, can achieve.

IV. Recommendations

115. **I call upon all Member States and the entire international community to take every step possible to achieve the Millennium Development Goals.** This will require political courage and enlightened leadership on the part of all countries, regardless of their level of development. But we must, as stated in the Millennium Declaration, spare no effort to deliver on our policy and financial commitments. This is our duty — our responsibility to humanity today and in the future. With political will and adequate resources, much can be accomplished before the 2015 deadline. Even then, some goals may not be met. Others, even if met, were designed

to address only part of the challenge. The post-2015 development agenda will therefore need to complete the Millennium Development Goals, scale up their success, expand their scope and address new challenges.

116. I call upon Member States to adopt a universal post-2015 development agenda, with sustainable development at its core. Poverty eradication, inclusive growth targeting inequality, protecting and managing the natural resource base of our planet within a rights-based framework and cognizant of the nexus between peace and development — these are the overarching objectives of sustainable development. To realize this agenda, all countries need to recognize the profound transformations required to address the emerging challenges of sustainable development. These include economic shifts to sustainable patterns of production and consumption, effective governance and a renewed global partnership and means of implementation.

117. I call upon the international system, including the United Nations, to embrace a more coherent and effective response to support this agenda. I welcome the leadership of Member States as they establish the high-level political forum, tasked with providing coordination and coherence at the highest political level to foster sustainable development in every country. The United Nations system will continue to reform and make itself “fit for purpose” so as to respond to the challenges of this new path to sustainable development.

118. I encourage Member States to provide clarity on the road map to 2015. As Member States consider the processes leading up to 2015, they could be supported by a report of the Secretary-General during the main part of the sixty-ninth session of the General Assembly. This would draw upon the outcomes of the Open Working Group on Sustainable Development Goals, the Intergovernmental Committee of Experts on Sustainable Development Financing and other bodies. The intergovernmental process could lead to an agreement on the vision, principles, goals and targets of the post-2015 development agenda, as well as on the renewed global partnership for development.

V. Conclusion

119. Acting upon our common challenges demands a renewed commitment to international cooperation. Multilateralism is being tested. The United Nations, as a global beacon of solidarity, must do its part to strengthen collaboration and show that it can be effective in building the just, prosperous and sustainable world that people want and have a right to expect. Defining the post-2015 development agenda is thus a daunting yet inspiring and historic task for the United Nations and its Member States.

120. In so doing we must continue to listen to and involve the peoples of the world. We have heard their calls for peace and justice, eradicating poverty, realizing rights, eliminating inequality, enhancing accountability and preserving our planet. The world's nations must unite behind a common programme to act on those aspirations. No one must be left behind. We must continue to build a future of justice and hope, a life of dignity for all.



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External debt sustainability and development

Report of the Secretary-General

Summary

The present report, submitted pursuant to General Assembly resolution 67/198, reviews recent developments in the external debt of developing countries, with a special focus on the policy considerations faced by developing countries in maintaining debt sustainability in the current macroeconomic environment.

* A/68/150.



I. Introduction

1. The present report is submitted in accordance with paragraph 37 of General Assembly resolution 67/198. It includes a comprehensive analysis of the external debt situation and debt servicing problems faced by developing countries and economies in transition¹ (henceforth referred to as developing countries). It describes new developments and trends in external debt and related areas of development finance, discusses various issues relating to the debt situation of least developed countries and their financing options, as well as policy considerations for maintaining debt sustainability in the current macroeconomic environment, and provides a basis for deliberation of related policy issues to reduce the prevalence and cost of debt crises.

II. Recent trends

2. Total external debt stocks of developing countries are estimated to have reached \$4.8 trillion in 2011, marking a 10.7 per cent increase over 2010 figures (see annex). Estimates made by the United Nations Conference on Trade and Development (UNCTAD) secretariat indicate that debt levels continued to grow by approximately 12.4 per cent over 2011-2012, bringing the total external debt of developing countries to an estimated \$5.4 trillion in 2012. This marks the third consecutive year that the growth of external debt of developing countries has exceeded 10 per cent, following nearly a decade of average growth of around 7 per cent. Long-term debt represents 70 per cent of total debt stocks and is mainly owed to private creditors. The share of official long-term lending to developing countries continued to decline in 2011 and 2012. At the same time, the share of short-term debt increased to \$1.2 trillion in 2011 and to an estimated \$1.4 trillion in 2012, constituting more than a quarter of total debt stocks.

3. Average gross domestic product (GDP) in real terms for the group grew by 6.1 per cent in 2011 and is estimated to have grown at a more modest pace in 2012, by 4.7 per cent. Similarly, exports continued to grow by 7.2 per cent in 2011, but preliminary figures suggest that export growth slowed to 3.3 per cent in 2012. As a result, debt ratios for the group as a whole are estimated to have worsened in 2012 after a slight improvement in 2011. From 2011 to 2012 total debt to GDP increased from 20.7 per cent to 22 per cent, debt service to exports rose from 7.9 per cent to 8.5 per cent, and total debt to exports increased from 68.3 per cent to 75.2 per cent.

4. International reserves for all developing countries increased to \$6.2 trillion in 2012 from nearly \$6 trillion in 2011, although their rate of growth declined to 5 per cent in 2012, marking the lowest rate in more than a decade. The average ratio of international reserves to GDP for the period 2008-2009 was 26.6 per cent, up from 21.3 per cent for the 2003-2007 period. The stock of international reserves continues to outweigh the stock of total debt for developing countries when taken as a group, although the faster growth of debt than of reserves since 2008 is a matter of concern.

5. The share of Eastern European and Central Asian debt as a percentage of the total external debt of developing countries stands at an estimated 28.4 per cent, the highest of all regions. The region's debt-to-GDP ratio, already the highest of all the regions in 2011, rose further from 39.3 to 41.1 per cent in 2012, mainly as a result

¹ As defined by the World Bank International Debt Statistics 2013 online database.

of an increase in short-term debt. However, the overall debt position is supported by large holdings of international reserves and a healthy reserve-to-short-term-debt ratio in excess of 200 per cent. Furthermore, the cost of borrowing for the region has come down and is now well below the peak reached in 2009. The main issue for the region remains the relatively slow recovery in export and GDP growth due to continued slow growth in Western Europe.

6. Total debt stocks in sub-Saharan Africa reached \$313.2 billion in 2012 as external debt continued to grow by 6.4 per cent, though at a slower pace than the 9 per cent growth in 2010 and 2011. The region's share of total debt stocks of developing countries continued to decline in 2012 to an estimated 5.8 per cent. The majority of the region's total debt is long-term debt (accounting for 79.3 per cent), of which less than half is owed to official creditors. The region's debt ratios have improved markedly since 2000 owing in large part to debt relief delivered under the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiatives and continued economic growth. Total debt to GDP was 24.3 per cent in 2012, compared with 62.5 per cent in 2000, the total-debt-to-exports ratio was 66.1 per cent, down from 182.6 per cent in 2000, and the debt-service-to-exports ratio was 3.5 per cent in 2012, versus 10.5 per cent in 2000. In addition, international reserves have steadily increased to \$200.1 billion in 2012, more than five times the level in 2000. Eight countries have issued sovereign bonds on international capital markets since 2009, owing in part to improved debt indicators.² This trend has been fuelled by low interest rates in advanced economies combined with investors seeking risk-adjusted returns and diversification opportunities. New issuances bring both opportunities and risks that countries will need to manage.

7. In Latin America and the Caribbean, total debt stocks were \$1.2 trillion in 2011 and are estimated to have reached \$1.4 trillion in 2012. The region has experienced an average GDP growth rate of at least 4 per cent since 2003, which occurred in combination with current account surpluses and sizeable real exchange rate appreciation. In addition, most countries underwent improvements in external financing conditions as sovereign yield spreads narrowed. These factors contributed to a dramatic improvement in the region's debt ratios between 2003 and 2008.³ The debt ratios experienced a temporary up-tick in 2009, following the outbreak of the financial crisis, but subsequently subsided and have since remained steady, except for the debt-to-GDP ratio. The debt-service-to-exports ratio remained about 13 per cent in 2011 and 2012 and debt service to GDP rose slightly from 2.9 per cent in 2011 to an estimated 3.1 in 2012, although total debt to GDP increased from 22.1 per cent to an estimated 25 per cent in 2012. The region's total debt stocks are largely long-term and are owed primarily to private creditors, with less than 20 per cent owed to official creditors. The region also experienced a sizeable increase in foreign assets, with international reserves increasing to an estimated \$784.8 billion in 2012; reserves grew at the more modest pace of 8.2 per cent in 2012, compared with growth rates varying between 10 and 45 per cent since 2003. GDP growth in the region has been gradually slowing over the past three years, which is attributed to a weaker global economy and lower domestic demand.

² International Monetary Fund (IMF), *Regional Economic Outlook: Sub-Saharan Africa — Building Momentum in a Multi-Speed World*, World Economic and Financial Surveys (Washington, D.C., May 2013).

³ IMF, *Regional Economic Outlook: Western Hemisphere — Time to Rebuild Policy Space*, World Economic and Financial Surveys (Washington, D.C., May 2013).

8. Total debt stocks in the Middle East and North Africa are estimated to have increased in 2012 by 3 per cent, to \$171.1 billion, after registering nearly no growth in 2011 and 3 per cent growth in 2010. The region continues to hold the smallest share of the total external debt of developing countries, amounting to 3.2 per cent. This share has continually declined since 2000, when it was 6.8 per cent. Long-term debt accounts for 72 per cent of the region's total debt, of which more than 60 per cent is owed to official lenders. Total debt to GDP and debt service to GDP remained steady compared with 2011, while debt service to exports increased 1 per cent year on year. The region continues to face political and economic challenges associated with the Arab Spring, which broke out in 2010. Countries in transition incurred higher fiscal deficits and public debts as a result of crisis management that diminished policy buffers. International reserves contracted in 2011 by 1.1 per cent and in 2012 by 4.1 per cent, to \$355 billion, following a decade of continued growth ranging between 19 and 32 per cent.

9. In East Asia and the Pacific, total debt stocks continued to grow at a high rate of 18.8 per cent to reach \$1.4 trillion in 2012. The up-tick in the growth rate of total debt began in 2009, while total-debt-to-GDP ratios have remained relatively steady at 14 per cent during this period as the region has benefited from robust economic growth. Slightly less than half of the region's debt stocks are composed of long-term debt, of which only 35 per cent is owed to official creditors. International reserves reached \$3.8 trillion in 2012. These averages mask large differences among countries. In particular, China accounts for 57 per cent of the total debt stock but has the lowest ratios in the region. When China is excluded from the regional average, the growth rate of total debt stocks is lower at 14 per cent in 2012, following a 9 per cent increase in 2011. In contrast, the majority of the region's total debt stocks (75 per cent) when excluding China is long-term. The debt ratios for the region excluding China are estimated to be higher, with debt service to exports at 7.9 per cent, total debt to GDP at 31.3 per cent and total debt to exports at 64 per cent in 2012. These ratios deteriorated slightly from 2011 to 2012. International reserves excluding China amounted to \$528 billion in 2012, an increase from \$501 billion in 2011.

III. Debt situation of the least developed countries and their financing options

10. In 2012, the total external debt of the 49 countries classified as least developed countries increased to an estimated \$183 billion, up 6.7 per cent in nominal terms compared to 2011. As a result, the ratio of debt to GDP increased from 26.3 per cent in 2011 to 26.7 per cent in 2012 and the ratio of total debt to exports increased from 78.7 to 82.5 per cent. Both debt ratios were higher than the respective ratios of developing countries.⁴

11. Since the majority of external debt for least developed countries is long-term (81.2 per cent) on highly concessional terms, the average debt service as a percentage of GDP and exports remained lower compared with other groups, at 1.5 per cent and 4.7 per cent, respectively, in 2012. Meanwhile, the total stock of short-term debt increased by \$2.5 billion, or nearly 14 per cent, in 2012. The total

⁴ UNCTAD calculation based on the International Debt Statistics 2013 online database.

amount of foreign reserves covered nearly five times the amount of short-term debt, which is similar to the ratio of the developing countries and sub-Saharan Africa.

12. As at April 2013,⁵ there were 2 least developed countries in debt distress (Myanmar and Sudan) and 10 in high risk of debt distress (Afghanistan, Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Gambia, Haiti, Kiribati, Sao Tome and Principe and Yemen). Both the Comoros and Guinea reached the completion point in 2012 under the HIPC Initiative and, as a result of the debt cancellation obtained from the Paris Club, are no longer considered to be in debt distress.

13. A combination of strong growth, prudent macroeconomic management and debt relief has produced a sharp decline in debt burdens for many least developed countries in sub-Saharan Africa. However, the public debt ratios have been rising in many post-HIPC/Multilateral Debt Relief Initiatives countries in recent years. The increase in debt-to-GDP ratios following the Multilateral Debt Relief Initiative has been quite significant in several cases, including Benin, Ghana, Senegal and Malawi, where the surge in the debt ratio largely reflects sharp exchange rate depreciation in 2012, rather than new borrowing.⁶ High levels of public debt are a constraint on fiscal policy space, since many countries could find it difficult to finance budget deficits in the event of an economic downturn.

14. Overall the growth performance of the least developed countries improved in 2012, with an average growth rate of 4.8 per cent compared with 3.7 per cent in 2011.⁷ While some least developed countries experienced an acceleration of growth due mostly to a significant recovery in the oil sector (Angola) or new extractive operations (Sierra Leone), growth contracted notably in some other countries, including Guinea-Bissau, Mali, Solomon Islands and Uganda, owing to various reasons, such as internal conflict or tightening monetary policy. Furthermore, fiscal space has deteriorated for a number of least developed countries as a result of sluggish growth and higher fiscal deficits.

15. The average current account deficit of least developed countries as a percentage of GDP worsened from 1.7 per cent to 3 per cent in 2012.⁸ Within the group, performance varied markedly as oil exporters typically recorded improved trade and current account positions, whereas non-oil mineral exporters tended to see their balances deteriorate. In 2012, the current account of 27 least developed countries worsened, reflecting in part the continued sluggish performance of exports in several cases and the strong rising import demand observed in some least developed countries, such as Burkina Faso, Guinea and Mozambique. In 2012, most least developed countries (43 out of 49 countries for which data are available) were still running large current account deficits. A total of 24 least developed countries had deficits greater than 8 per cent of GDP, which in some cases exceeded 20 per cent (Bhutan, Guinea, Liberia, Mauritania, Mozambique, Niger and Sao Tome and Principe).

16. Least developed countries and African countries, in particular, have huge infrastructure needs in key sectors, such as electricity generation and distribution,

⁵ IMF list of low-income countries' debt sustainability analyses for Poverty Reduction and Growth Trust-eligible countries as at 4 April 2013. Available from www.imf.org/external/pubs/ft/dsa/dsalist.pdf.

⁶ IMF, *Regional Economic Outlook: Sub-Saharan Africa*.

⁷ UNCTAD, UNCTADstat.

⁸ UNCTAD staff calculation based on IMF balance-of-payments data and UNCTADstat.

roads, airports and ports, and thus a large demand for new resources to be invested. Thus, the way investment projects are financed will have a significant impact on both the long-term growth of least developed countries and the sustainability of their debts.

17. Least developed countries have fewer opportunities and sources of financing compared with other developing countries. With some exceptions, domestic debt markets are not sufficiently developed, especially in the long-maturity segment, and the resources that can be raised are constrained by the limited amount of savings. Developing a domestic debt market is also costly in terms of financial and human resources. More importantly, domestic borrowing cannot fully replace external financing because least developed countries must raise foreign exchange to buy foreign capital goods and equipment for investment projects. Current account imbalances suggest that foreign capital will continue to play an important role in the development of least developed countries.

18. Foreign capital flows to least developed countries are mainly in the form of concessional loans from official donors or foreign direct investment (FDI). The high share of FDI in total capital flows to least developed countries is partly due to the very small amount of private loans and portfolio investments. In the case of least developed countries where the debt is deemed sustainable, little borrowing on commercial terms reflects the stringent limits that these countries have to abide by for non-concessional borrowing in order to continue to obtain access to highly concessional loans from Bretton Woods institutions. However, since 2009, the International Monetary Fund (IMF) limits on borrowing at non-concessional terms for countries under IMF-supported programmes have become more flexible, and exemptions have been granted on the basis of an assessment of a country's capacity⁹ and the extent of its debt vulnerabilities.¹⁰ For example, Senegal and, more recently, Rwanda and the United Republic of Tanzania have been exempt from concessionality requirements and can place bonds on international markets.

19. Greater access to private foreign capital could endow least developed countries with much-needed resources to overcome the large infrastructure deficit that hinders their long-term economic growth. As a result, the current policy framework, which restricts borrowing on commercial terms by countries under IMF- and World Bank-supported programmes, has come into question as it affects the majority of least developed countries. Indeed, countries under such programmes must satisfy strong concessionality requirements to continue to receive assistance from Bretton Woods institutions; in most cases, a minimum 35 per cent grant element is required on new loans. Borrowing at non-concessional terms is allowed, but within predefined limits. Coupled with the declining interest rates used to compute the grant element of new loans, the framework severely restricts least developed countries' access to private development finance. The need for greater flexibility thus emerges in the reform proposal regarding the concessionality of loans and debt limits in IMF-supported programmes.¹¹

⁹ Country capacity reflects the assessment of a country's macroeconomic and public financial management according to the joint IMF-World Bank Debt Sustainability Framework.

¹⁰ Countries under IMF programmes have cumulative non-concessional borrowing ceilings to finance infrastructure spending. See www.imf.org/external/np/pdr/conc/index.htm for information on IMF policy.

¹¹ IMF, "Review of the policy on debt limits in Fund-supported programmes", 1 March 2013. Available from www.imf.org/external/np/pp/eng/2013/030113.pdf.

20. Since 2012, Rwanda, the United Republic of Tanzania and Zambia have accessed the global bond market by issuing international sovereign bonds for the first time. The ability of least developed countries to obtain access to international financial markets is facilitated by strong economic growth, high commodity prices and, above all, high global liquidity and investors' search for yield. It is crucial that least developed countries have a clear understanding of the advantages and disadvantages of international bond issues compared with other financing instruments. Eurobonds may provide a potentially important new source of funding for infrastructure projects, which often require resources that exceed aid flows and domestic savings. However, some risks remain to be considered, including foreign currency and rollover risks. Large capital inflows may also lead to undue appreciation of the exchange rate and create problems for the conduct of monetary policy. The greater risk is that "easy bond financing" may lead to increased public consumption or poor selection and execution of investment projects. More generally, market access by low-income countries raises concerns that borrowing on commercial terms, while increasing the cost of debt service, may not deliver the high growth needed to make the debt sustainable.

21. While the opportunities and risks implied by commercial loans and portfolio investments and the necessary restrictions to accessing such resources have been highly debated, non-debt-creating capital flows are generally welcomed by the international community. Indeed, over the past three decades, least developed countries experienced a dramatic surge in FDI, which now plays a lead financing role. After accounting for a negligible share of external financing in the 1980s, FDI accounted for almost three quarters of all capital inflows before the global financial crisis.¹² Since then the share of FDI has declined as a result of increased assistance by official creditors, but their value has remained high, about half of total inflows, and FDI has proved to be a particularly stable source of financing and an important factor in the resilience of least developed countries.

22. FDI flows do not create debt, but a trade-off emerges between financial soundness and the appropriation of investment returns. The insurance that FDIs provide against debt crises comes at the cost of surrendering a large share of value added to foreign firms. The problem is compounded by the use of fiscal incentives and the concentration of foreign investments into capital-intensive sectors, such as the oil/mineral industry and/or the telecommunications sector, which generate little employment. These implications should also be taken into account in the design of a policy framework for commercial loans that is not unduly restrictive and delivers an optimal financing strategy for the poorest countries in the world.

IV. Policy considerations for maintaining debt sustainability

23. The current global economic climate is characterized by slow growth and increased rate risk, and cheap sovereign financing may be coming to an end as rates on long-term bonds have begun to rise. This creates significant challenges for developed and developing countries alike in maintaining debt sustainability. This is particularly true for developing countries that have expended a significant degree of their fiscal buffers in recent years to respond to and mitigate negative shocks stemming from the global financial and economic crisis, which came on the heels of

¹² UNCTAD calculation based on IMF balance-of-payments data as at May 2013.

the food and fuel crises in 2007-2008. As a result, the policy space of developing countries has greatly diminished.

24. The uncertainties and low growth of advanced economies coupled with ample global liquidity in search of higher returns are affecting the cost-risk trade-off that developing countries face in managing their debts. The abundance of global funds is compressing yield spreads, making it easier for developing countries to access foreign capital. Low interest rates and the narrowing of bond spreads tend to favour a cost-minimizing strategy by providing developing countries with a strong incentive to fund their debts on international markets. On the other hand, the uncertainty surrounding the monetary policy stance of advanced economies, for example the timing and pace of their exit strategies, and the risks implied by their high levels of public debt could add to financial market volatility and suggest that the greatest benefits come from strategies aimed at minimizing risk.

25. Maintaining debt sustainability depends on a multitude of factors that include not only future growth but also borrowing conditions, terms of trade, foreign exchange risk and interest rate risk, among many other considerations. In the light of these challenges, reflecting on policy considerations for maintaining debt sustainability is of great importance, particularly with regard to: (a) use of borrowed funds; (b) implementation of prudent and sound debt management; (c) choice of financing sources; (d) design of an effective debt strategy; (e) engagement in responsible sovereign lending and borrowing; and (f) formulation of an international debt workout mechanism.

26. The decision as to how to use borrowed funds is important to ensuring debt sustainability. For instance, the funds raised by issuing debt should be invested in projects that have a high private or social return. When borrowing in foreign currencies, countries should take great care to ensure that their future export revenues will be sufficient to service the additional debt. Debt accumulation is likely to be unsustainable if domestic or foreign borrowing is used to finance public or private consumption with no effect on long-term growth. However, there are conditions under which even debt used to finance productive investment could turn out to be unsustainable. This happens if the ex-post returns on a project end up being lower than the interest and principal debt repayments. In fact, not only are investment returns difficult to predict, but debt service costs are uncertain. For instance, debt service costs depend on the characteristics of the debt, such as whether debt instruments are denominated in domestic or foreign currency, have a short or long maturity and pay fixed or index-linked rates.

27. Prudent and sound debt management is important to maintaining debt sustainability. Choosing the proper financing instruments is crucial to guaranteeing debt sustainability. As the sensitivity of debt service costs to the shocks hitting the economy depends on the composition and maturity of the debt, a long and balanced maturity structure can significantly reduce the risk from interest rate fluctuations. Debt denominated in local currency can avoid capital losses from exchange rate depreciations. Fiscal sustainability may also be endangered by unexpected deflation to the extent that debt service is fixed in nominal terms, while investment yields real returns. The fact that most shocks to the debt-to-GDP ratio depend on the debt composition suggests that effective debt management can be as important as fiscal policy. This contrasts with debt sustainability exercises that focus on the dynamics of the budget deficit. The fact that the reported deficits account for only a small part

of the changes in the debt-to-GDP ratio in developing countries points to the importance of balance sheet effects associated with the debt structure.

28. Large stocks of foreign reserves and the possible emergence of contingent liabilities also suggest that debt sustainability can no longer be examined with sole reference to public debt; it must also involve the assessment of all assets and liabilities of the public sector. Greater attention to the relation between assets and liabilities in the government balance sheet is beneficial because it naturally leads to the analysis of debt sustainability, as the costs of debt financing are directly linked to its benefits in terms of investment/asset returns. An asset and liability approach also puts in place a prudential framework to monitor all relevant risks to which a Government is exposed, such as commodity price risk, fiscal risk and the emergence of contingent liabilities, in addition to liquidity, currency and interest rate risk.

29. It is important for countries to carefully weigh the risks and benefits of each source of financing to ensure debt sustainability. The sources of financing that are currently available to sovereign borrowers have greatly diversified. This provides developing countries with more financing options and greater opportunities but also poses greater challenges to debt management, particularly with regard to choosing among funding instruments. Given the broader array of financing sources, developing countries now face more trade-offs in defining their optimal funding strategies, as some of them can choose between domestic and external debt, short- and long-term debt, loans and bonds and, in case their income is low, between borrowing on concessional and commercial terms.

30. A major decision that countries face is whether to fund investment projects and budget needs on domestic or foreign markets. Over the past two decades, a number of developing countries have developed and deepened domestic bond markets, which allow their Governments to issue bonds denominated in local currencies.

31. The choice between domestic and foreign markets for funding involves a trade-off between cost and risk. The advantage of issuing local currency debt is that it can serve as an effective strategy for developing countries to reduce their vulnerability to exchange rate valuation effects caused by excessive capital inflows followed by sudden stops and capital reversals. Debt denominated in local currency also increases the policy space because it allows the monetary authority to counter external shocks, such as commodity price shocks or slowdowns in world demand, through exchange rate depreciations without bringing about a sudden jump in the debt-to-GDP ratio and, possibly, a debt crisis. In fact, while currency depreciation is the least painful way to restore external sustainability, this option is precluded or is very costly in the presence of a large share of foreign currency debt. However, the insurance provided by domestic debt does have its drawbacks, as it is costly to obtain, as shown by the higher interest rates that developing countries pay on domestic bonds relative to those issued in global markets. Furthermore, domestic debt increases the exposure to refinancing risk owing to its short maturity and is vulnerable to capital flights, especially when it is held by foreign investors.

32. As debt sustainability depends on both the costs and the risks of debt service, defining an effective debt strategy is a difficult task. For example, an effective strategy must choose the composition between domestic and foreign debt that strikes the optimal balance between cost and risk. Countries will have to assess whether the higher interest rate on domestic debt represents a fair compensation for insurance or a premium for the illiquidity of the domestic market or the exchange rate

depreciation that could occur, and whether such expectation is justified or reflects the lack of credibility of the monetary/exchange rate policy. Even more difficult is comparing the expected cost differential of the debt strategies with the risk that they imply, since there is no easy way to quantify such risks and estimate their potential implications for debt sustainability. In fact, debt sustainability analysis tries to evaluate the effects of such risks by "stress testing" the accumulation of debt under alternative scenarios. Unfortunately, the results of such exercises ultimately rely on the probability of the occurrence of different shocks and their relative dimension. This determination remains a matter of personal judgement or, if estimated from past data, is based on faith that the past will repeat itself. The problem that must be solved is compounded by other dimensions of the debt strategy, which range from the choice of the maturity structure to the indexation of interest payments.

33. The complexity of maintaining debt sustainability has certainly increased together with the sources of financing and the types of instruments that countries may choose to avail themselves of. However, debt management has gained an increasingly important role in minimizing vulnerabilities to ensure debt sustainability and prevent crises. Risk minimization has gained increasing support as the main objective of debt management, which has led many countries to develop domestic debt markets, broaden the investor base and issue fixed-rate long-term bonds denominated in domestic currency, which provide budget insurance against both supply and external shocks. This greater attention to the insurance role of debt management and the recognition of the importance of sovereign debt structure for crisis prevention are the results of lessons learned from past crisis. Greater debt management capacity has allowed developing countries to withstand the global crisis and maintain relatively high growth.

34. The co-responsibility of sovereign lenders and borrowers should be promoted. In this respect, UNCTAD coordinated a high-level expert group with the participation of various stakeholders and formulated the principles on responsible sovereign lending and borrowing in 2012. These principles clearly specify the responsibility of both sovereign borrowers and lenders to sovereigns by advocating for the use of a good code of conduct and institutional set-up in concluding debt transactions. It would be a big step forward for debt crisis prevention if lenders and borrowers could uphold high standards on such aspects as due diligence, transparency and proper approval, among others, instead of succumbing to the temptations of seeking the highest returns and overborrowing. In the same vein, the Human Right Council and civil society have also encouraged stakeholders to embrace the notion of co-responsibility by formulating principles and guidelines.

35. The risks to debt sustainability posed by a complex international economic situation that emerged as a result of the global financial crisis have reinvigorated the debate on the most effective ways to address debt default when it occurs and have a transparent, fair and efficient set of rules in place for dealing with such situations. The absence of a debt crisis resolution mechanism has led to "too little, too late" debt restructurings that have contributed to large economic and social losses. Currently, legal decisions to resolve defaults are made at the local level in a wide range of institutional contexts, at the expense of global coherence. The recent court rulings with respect to the debt of Argentina demonstrate that the absence of a coherent global debt default resolution framework introduces uncertainty and can be harmful to both creditors and debtors.

V. Debt relief and official development assistance

Heavily indebted poor countries initiative and progress on the multilateral debt relief initiative

36. As at mid-May 2013, since the issuance of the previous report of the Secretary-General two countries (Comoros and Guinea) had reached the completion point under the HIPC Initiative, bringing the total number of completion point countries to 35. At this stage the HIPC Initiative is deemed to be nearly completed, with only one country, Chad, remaining in the interim stage between the decision and completion points and three countries (Eritrea, Somalia and Sudan) having yet to reach the decision point. Thus far the decision point date remains uncertain for the pre-decision point countries. The four countries that have yet to complete the initiative share common challenges, which include preserving peace and stability, improving governance and delivering basic services.¹³

37. On average, for the 36 post-decision point HIPCs, improvements have been made with respect to decreasing debt-service-to-export ratios, from 14.5 per cent in 2001 to 3.1 per cent in 2011. However, the ratios of debt service to exports are expected to increase to 5.4 per cent in 2012 and are projected to remain above 4.5 per cent during the following five years. Of the 36 HIPCs that have actively engaged under the HIPC Initiative, 7 are classified as being at high risk of debt distress, 16 are classified as being at moderate risk and 13 are classified as being at low risk.¹⁴

38. The countries that complete the HIPC Initiative also benefit from additional debt relief under the Multilateral Debt Relief Initiative. Both initiatives are designed to reallocate reduced debt service payments towards increasing poverty-reducing expenditures. Debt relief alone is not a panacea to the development challenges confronting HIPCs; it is a necessary but insufficient solution and must be accompanied by additional assistance both in terms of development financing and capacity-building. However, despite the steady increase in poverty-reducing expenditures, from 6.3 per cent of GDP in 2001 to an estimated 9.8 per cent in 2012, many HIPCs are seriously off track to achieve most of the Millennium Development Goals by 2015. Nevertheless, progress towards the Millennium Development Goals varies across Goals and countries.

39. There have been several challenges encountered in the implementation of the HIPC Initiative, some of which have been inherent in its design. For example, non-Paris Club creditor participation remains a hindrance to the full delivery of HIPC debt relief. Non-Paris Club bilateral creditors and commercial creditors account for 26 per cent of the estimated cost of HIPC debt relief, and the low level of their participation has proved to be an obstacle: only 47 per cent of this share has been delivered to HIPCs. Furthermore, an estimated one third of these creditors have yet to deliver any relief at all. However, the participation of commercial creditors has reportedly increased in recent years, owing in part to a few large

¹³ IMF, "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) — statistical update", 2 April 2013. Available from www.imf.org/external/np/pp/eng/2013/041113.pdf.

¹⁴ IMF list of low-income countries debt sustainability analyses for Poverty Reduction and Growth Trust-eligible countries as at 4 April 2013.

operations supported by the International Development Association Debt Reduction Facility buy-back operations.¹⁵

40. While much-needed debt relief has been delivered to heavily indebted poor countries under the HIPC Initiative and the Multilateral Debt Relief Initiative, it is important for the international community to remain vigilant and avoid complacency. With the conclusion of the HIPC Initiative drawing near, lessons must be drawn to take stock of both the successes and the shortcomings of the Initiative. As it is not realistic to assume that additional challenges will not arise in the future, the international community should make its best effort to learn from this experience so as to better prepare for crisis response in the future.

Official development assistance

41. In 2012, net official development assistance (ODA) from Organization for Economic Cooperation and Development (OECD)/Development Assistance Committee donors amounted to \$5.6 billion, equivalent to 0.29 per cent of their combined gross national income (GNI). In 1970, the General Assembly, in paragraph 43 of the International Development Strategy for the Second United Nations Development Decade, set a target of 0.7 per cent of GNI as the minimum net amount of ODA to developing countries that economically advanced countries would exert their best efforts to reach (see resolution 2626 (XXV)). Thus far the international community has consistently fallen short of that target on average, although a handful of donor countries have succeeded in meeting and even surpassing the target.

42. ODA continued to be negatively affected by the global crisis in 2012 as it contracted by 4 per cent in real terms compared with 2011. This is the second year of continued contraction of ODA, following a 2 per cent drop in 2011,¹⁶ marking the first time since 1996-1997 when aid contracted in two successive years. The reduction in ODA is attributed to the tightening of government budgets in donor countries in response to increased fiscal pressure associated with the global financial and economic crisis.

43. While the OECD Development Assistance Committee survey on donors' forward spending plans for 2013-2016 reports that ODA is likely to rebound in 2013, aid volume is expected to stagnate over the medium term from 2014 to 2016.¹⁷ This stagnation is likely associated with the uncertainty that continues to hang over the global economic climate. Another trend of concern is the shift in ODA allocations away from the poorest countries towards middle-income countries.

44. The survey also indicates that there will be a significant reduction in programmed aid to countries with the largest gaps in terms of Millennium Development Goals and poverty levels, amounting to nearly half a billion dollars. The countries identified as being primarily affected are those in sub-Saharan Africa, which have also been identified as underaided countries. Bilateral aid to sub-Saharan Africa fell by 7.9 per cent in real terms, while aid to Africa contracted

¹⁵ IMF, "Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative", 2 April 2013. Available from www.imf.org/external/np/exr/facts/hipc.htm.

¹⁶ OECD, "Aid to poor countries slips further as Governments tighten budgets", 3 April 2013. Available from www.oecd.org/dac/stats/aidtopoorcountrieslipsfurtherasgovernmentstightenbudgets.htm.

¹⁷ OECD, "Outlook on aid: survey on donors' forward spending plans", 3 April 2013. Available from www.oecd.org/dac/aid-architecture/OECD%20Outlook%20on%20Aid%202013.pdf.

by 9.9 per cent in 2012. In addition, OECD reported that ODA to least developed countries contracted by 12.8 per cent in real terms in 2012. The shift in aid allocations also indicates an increase in aid for core bilateral projects and programmes by 2 per cent in real terms and a contraction of core contributions to multilateral institutions by 7.1 per cent.

45. ODA is an important source of funds for developing countries that have had to weather the global financial and economic crisis and the negative impact it has had on trade, remittances, capital flows and exchange rate volatility. These contractions and shifts in allocations of ODA raise concerns with regard to the predictability of aid and its effectiveness for countries in the greatest need. Aid predictability is crucial to allowing developing countries to design and implement national development strategies. Unpredictable delivery of aid hinders the effective use of resources and budgetary frameworks to achieve productive outcomes.

46. As the international community begins its discussions on the post-2015 development agenda, it is important for donors to remain committed to the success and achievement of the Millennium Development Goals by 2015 and deliver on their ODA commitments. Success in achieving the Goals hinges greatly on the provision of adequate and predictable financing. The risks posed to the economic growth and poverty reduction of the poorest and most vulnerable countries as a result of the global crisis remain through aid and trade channels. It is imperative for donors to redouble their efforts to keep their ODA commitments and ensure that progress that has been made thus far is not lost and that future progress is not jeopardized.

Paris Club activities

47. Since the previous report, developing countries have continued to benefit from the HIPC and Multilateral Debt Relief Initiatives. As an increasing number of countries are reaching their completion point, there has been a corresponding drop in the frequency of Paris Club meetings. Thus, only three Paris Club meetings have been held since July 2012, and all of them dealt with the debt of HIPCs.

48. After Guinea reached the completion point under the HIPC Initiative in September 2012, Paris Club creditors met with the delegation of Guinea in October to consider the country's external debt situation. The treatment granted to Guinea was generous and is expected to be supportive of the country's efforts to alleviate poverty and stimulate economic development. Including pledges by some creditors for the cancellation of debt on a bilateral basis beyond the agreement reached at the Paris Club meeting, almost the entire stock of debt owed by Guinea to the Paris Club will be annulled.

49. In January 2013, a Paris Club meeting was held for Myanmar that marked the country's return to the international financial community. Myanmar had accumulated important arrears over the previous decade, and the Paris Club meeting focused on clearing those arrears and re-establishing sustainability for the country. As a result, almost \$6 billion (in arrears and late interest payments), or half of the total arrears, were cancelled by Paris Club creditors. It is important to note that some countries have pledged either a cancellation or special treatment of all arrears, which resulted in the generous treatment.

50. The Comoros reached the completion point under the HIPC Initiative on 20 December 2012. The meeting in Paris was held in February 2013, and Comoros obtained a 100 per cent cancellation of its eligible debts from Paris Club creditors.

VI. Conclusions and policy recommendations

51. In spite of the worsening of key debt ratios since the previous report, the debt situation of developing countries as a group remains reasonably stable. However, the aggregated statistics mask important differences between regions and country groupings. Thus, a number of countries that have completed the HIPC Initiative continue to be classified at a high risk of debt distress. This is of particular concern, as it is accompanied by a decrease in ODA flows over the past two years, at a time when low-income countries need highly concessional financing to maintain debt sustainability.

52. As the international community continues its deliberations to shape the post-2015 development agenda to bring an end to poverty, it is evident that the Millennium Development Goals have played an important role in focusing the international community's efforts to pursue internationally agreed goals. The role of ODA in achieving and pursuing these targets is of crucial importance; hence, the declining trend in ODA is of considerable concern. While the economic situation continues to be fragile for a number of developed economies, the active engagement of donors in pursuing the achievement of the Millennium Development Goals and formulating the post-2015 development agenda is of utmost importance for promoting inclusive growth and development. In this regard, donor countries should honour their commitment to disburse 0.7 per cent of GNI for ODA.

53. For countries with access to international bond markets, the evolution of long-term interest rates observed since the beginning of 2013 could pose particular challenges. After years of historically low global interest rates in the aftermath of the subprime crisis, borrowing costs on long-term debt have started to rise. Should this trend continue over the next few quarters, developing countries will find themselves in a situation of costlier financing and continued sluggish global growth. In this context, particular attention should be given to the evolution of their balance-of-payments positions, as interest payments on debt might start increasing without a substantial improvement in their current accounts, since the demand outlook in most developed markets remains uncertain. It is of particular importance for policymakers to examine the risks posed by such a scenario and adopt appropriate strategies to secure debt sustainability in the medium term.

54. Debt sustainability hinges upon a country's debt management capacity at the institutional, human and technical levels, which is fundamental to effectively dealing with macroeconomic risk and maintaining a sustainable level of debt in the long run. Indeed, debt management is as important as fiscal policy in ensuring sustainability and maintaining the economy on a high-growth path. This requires that the proceeds from financing be invested in projects with robust economic and social returns while avoiding the build-up of debt vulnerabilities from currency and maturity mismatches. Prudential management of debt liabilities and corresponding investments is essential in achieving macroeconomic stability, thus complementing fiscal and monetary policy.

55. The international community should more actively consider the development of an agreed rule-based approach to sovereign debt workouts to increase predictability and the timely restructuring of debt when required, with fair burden sharing, including the provision of minimum outlays in the budget for social protection. An inclusive and pluralistic international working group to examine options for enhancing the international architecture for debt restructuring would be a good initiative to discuss, design and propose alternatives to the international community. UNCTAD is currently taking the lead in this direction with its project on a debt workout mechanism. It established a working group of prominent experts and stakeholders in this field, which, in July 2013, officially started to examine options for such a mechanism.¹⁸

56. Maintaining debt sustainability can be encouraged by the adoption of adequate policies and standards emphasizing the prevention of debt crises. In this respect, the implementation of the principles on responsible sovereign lending and borrowing is a step in the right direction. This implementation process has already started at the national and international levels through the work of auditors-general and will proceed with the provision of technical assistance, upon member States' request, from 2014. The endorsement of the principles by both developing and developed countries indicates their wide-ranging applicability, as well as the holistic understanding of global debt problems and their possible remedies.

57. In accordance with General Assembly resolution 67/198, the international community should continue discussions on ways to improve the functioning of the international financial system and the role that credit rating agencies play in it. In particular, further attention should be given to policies and measures that would reduce spillover and contagion effects that rating decisions can create. As an increasing number of developing countries have obtained a credit rating, the debate on the role of credit rating agencies in the global financial architecture has gained importance over time.

¹⁸ Members and observers of the working group of the UNCTAD project currently include prominent legal and economic experts, representatives from IMF, the World Bank, the Paris Club, the private sector, non-governmental organizations, think tanks, labour unions, the African Development Bank, the Commonwealth secretariat, the Inter-Parliamentary Union, the International Organization of Supreme Audit Institutions, the Asian Development Bank, the Inter-American Development Bank and the European Bank for Reconstruction and Development.

Annex

External debt of developing countries^a

(Billions of United States dollars)

	All developing countries and countries with economies in transition					Sub-Saharan Africa				
	2000-2008	2009	2010	2011	2012 ^b	2000-2008	2009	2010	2011	2012 ^b
Total debt stocks	2 618.7	3 827.4	4 322.7	4 787.3	5 379.6	222.0	247.6	270.2	294.5	313.2
Long-term debt	2 050.6	2 892.2	3 126.0	3 404.0	3 763.7	175.7	182.6	203.2	229.1	248.4
Private (share)	64.7	73.7	74.1	75.4	76.6	28.9	42.5	48.7	51.4	56.6
Private non-guaranteed (share)	35.0	46.3	47.4	48.8	50.8	9.4	17.5	21.0	22.1	20.3
Short-term debt	485.3	789.8	1 042.1	1 228.7	1 458.8	38.5	45.0	47.4	44.6	45.5
Arrears	93.0	76.9	61.9	59.8	60.1	39.4	31.5	28.9	27.0	27.1
Debt service	363.6	489.6	510.4	554.6	609.2	14.3	13.0	13.1	15.2	16.6
International reserves	1 929.7	4 777.5	5 476.6	5 996.9	6 267.5	78.1	158.0	159.7	176.8	200.1
Debt indicators (percentage)										
Debt service/exports ^c	12.0	10.6	8.8	7.9	8.5	6.7	4.3	3.4	3.2	3.5
Total debt/exports	85.9	83.1	74.4	68.3	75.2	101.9	80.6	68.7	62.3	66.1
Debt service/GDP	3.9	3.0	2.6	2.4	2.5	2.5	1.4	1.2	1.2	1.3
Total debt/GDP	27.9	23.3	21.8	20.7	22.0	37.9	26.5	24.0	23.5	24.3
Reserves/short-term debt	401.8	609.3	528.1	489.5	430.7	208.4	359.6	346.6	408.8	451.2
Reserves/M2	27.5	30.3	29.1	27.1	24.8	32.5	35.1	30.5	30.4	33.6
	Middle East and North Africa					Latin America and the Caribbean				
	2000-2008	2009	2010	2011	2012 ^b	2000-2008	2009	2010	2011	2012 ^b
Total debt stocks	152.0	159.9	166.1	166.1	171.1	794.9	946.9	1 086.8	1 233.5	1 392.1
Long-term debt	123.6	118.8	120.5	119.8	123.4	656.9	782.7	883.6	1 032.4	1 168.8
Private (share)	32.0	34.2	35.3	34.6	35.6	79.3	80.9	80.6	83.1	81.3
Private non-guaranteed (share)	4.7	5.3	5.5	6.1	6.0	35.2	41.5	43.1	47.9	49.8
Short-term debt	26.1	32.8	37.2	38.2	39.3	115.4	139.5	177.9	175.6	200.7
Arrears	7.6	0.7	0.8	0.8	0.0	22.2	32.2	16.4	21.4	22.5
Debt service	19.0	17.6	16.4	18.2	18.4	137.0	139.7	136.4	162.3	170.1
International reserves	173.2	362.9	374.6	370.3	354.9	261.0	536.5	620.1	725.0	784.8
Debt indicators (percentage)										
Debt service/exports ^c	9.2	5.9	4.7	4.9	5.9	21.7	17.0	13.3	13.0	13.3
Total debt/exports	73.8	53.2	47.3	45.1	54.5	125.7	115.0	106.2	98.6	109.1
Debt service/GDP	3.4	1.8	1.5	1.5	1.4	5.2	3.5	2.7	2.9	3.1
Total debt/GDP	27.2	16.6	15.2	13.6	13.1	30.2	23.7	21.9	22.1	25.0
Reserves/short-term debt	664.9	1 108.0	1 006.2	970.4	903.7	226.1	384.5	348.4	412.7	391.0
Reserves/M2	48.6	58.4	62.7	58.8	53.8	22.4	24.4	22.9	23.1	22.4

	East Asia and the Pacific					South Asia				
	2000-2008	2009	2010	2011	2012 ^a	2000-2008	2009	2010	2011	2012 ^a
Total debt stocks	601.2	871.0	1 066.9	1 240.1	1 473.4	211.5	360.6	401.5	451.5	499.4
Long-term debt	420.1	521.6	569.1	597.2	701.6	188.8	290.1	317.7	345.4	374.6
Private (share)	58.2	61.4	63.4	64.4	66.8	40.0	50.5	51.5	53.3	56.6
Private non-guaranteed (share)	36.3	41.0	43.8	44.9	46.1	29.6	42.3	41.2	42.3	45.1
Short-term debt	171.6	328.8	477.7	622.8	747.1	18.7	52.1	63.8	86.2	103.5
Arrears	12.6	5.6	6.2	6.4	6.5	0.1	0.1	0.1	0.2	0.0
Debt service	79.3	96.7	105.6	114.5	139.9	25.0	21.6	30.2	33.7	39.9
International reserves	972.6	2 778.1	3 313.1	3 706.1	3 861.3	147.8	293.6	309.4	302.8	301.5
Debt indicators (percentage)										
Debt service/exports ^c	6.4	4.8	4.0	3.7	4.3	13.3	6.6	7.1	6.4	7.7
Total debt/exports	48.2	43.2	40.9	39.9	45.5	112.9	110.3	94.3	85.9	95.7
Debt service/GDP	2.6	1.5	1.4	1.2	1.4	2.5	1.3	1.5	1.5	1.7
Total debt/GDP	19.6	13.8	14.1	13.4	14.4	21.5	21.7	19.6	19.7	21.6
Reserves/short-term debt	570.0	448.1	695.6	596.6	518.1	793.1	564.0	485.2	351.5	291.6
Reserves/M2	23.7	27.8	27.6	25.4	22.7	24.6	24.3	21.0	20.9	18.8
Europe and Central Asia										
	2000-2008	2009	2010	2011	2012 ^a					
Total debt stocks	636.9	1 241.5	1 331.3	1 401.6	1 530.4					
Long-term debt	485.4	996.3	1 031.9	1 080.2	1 146.9					
Private (share)	81.3	91.6	90.8	90.8	93.0					
Private non-guaranteed (share)	52.9	64.1	65.0	64.4	67.9					
Short-term debt	115.1	191.6	238.0	261.3	322.8					
Arrears	11.0	6.8	9.5	4.0	4.1					
Debt service	88.9	201.0	208.9	210.7	224.3					
International reserves	297.0	648.3	699.8	715.9	765.0					
Debt indicators (percentage)										
Debt service/exports ^c	16.3	24.8	21.3	16.7	17.1					
Total debt/exports	115.2	152.6	135.1	111.1	116.8					
Debt service/GDP	5.7	7.8	6.8	5.8	5.9					
Total debt/GDP	41.2	49.3	44.2	39.3	41.1					
Reserves/short-term debt	263.3	342.6	295.9	273.8	237.0					
Reserves/M2	55.7	52.5	46.5	41.5	40.8					

Source: United Nations Conference on Trade and Development calculations based on the World Bank International Debt Statistics 2013 online database.

^a As defined in the International Debt Statistics 2013 online database.

^b Figures are estimates.

^c Exports comprise exports of goods, services and primary income.

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Macroeconomic policy questions: commodities**World commodity trends and prospects****Report of the Secretary-General***Summary*

The present report presents recent trends in commodity prices since the previous report, issued in July 2011 (A/66/207), and reviews the main international initiatives adopted to coordinate responses to excessive price volatility. It also provides a perspective on regional arrangements for creating physical grain reserves. Overall, the factors that contributed to high volatility of commodity prices were traditional supply and demand factors, although price volatility was exacerbated by the financialization of commodities. Low interest rates and loose monetary policy in major economies also contributed to high price volatility as commodities, such as gold, became higher-return assets relative to traditional investment instruments. The international community adopted a number of initiatives to address the negative effects of excessive price volatility in the agricultural, energy and metals markets.

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I. Introduction

1. The present report discusses the main causes of commodity price volatility since the previous report, issued in July 2011 (A/66/207). It reviews the main international initiatives adopted to coordinate responses to excessive price volatility and provides a perspective on regional arrangements for creating physical grain reserves.

2. A year after the nominal peak prices in 2008, prices plunged across virtually all commodity groups, bringing an end to the commodity boom that had begun in 2002 (see figure I). Since the second quarter of 2009, prices have rebounded strongly, due mainly to a combination of factors, including robust demand from emerging economies, supply constraints from major exporters, and speculative trading.

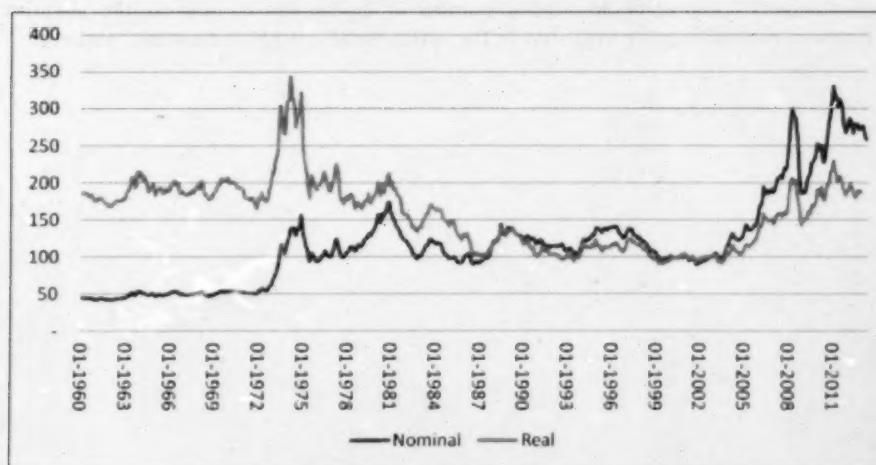
3. In the food markets, reduced supply caused by adverse weather in major producing countries drove up the prices of major cereals in the summer of 2012. Despite geopolitical tensions in the Middle East, combined with the uncertainty of world economic outlook, the price of crude oil remained relatively stable, even though there was some short-term volatility. The metals market, in contrast, registered a downturn since the second quarter of 2012, on the one hand, due largely to the weakening demand from major consumers. On the other hand, in the last quarter of 2012, the prices of key base metals and gold surged sharply on the announcement of monetary easing by the central banks of major developed economies.

4. During the first five months of 2013, price trends diverged among different groups of commodities, but prices were less volatile than in the last quarter of 2012. In the base metals and oil markets, prices declined following a brief recovery in the first two months of 2013. The price of gold plunged owing to various factors, in particular worries over the slowdown of United States Federal Reserve asset purchase programme and the speculative selling by gold exchange-trade fund investors.

Figure I

Non-oil commodity price index, January 1960–May 2013

(2000=100)



Source: United Nations Conference on Trade and Development (UNCTAD), UNCTADstat.

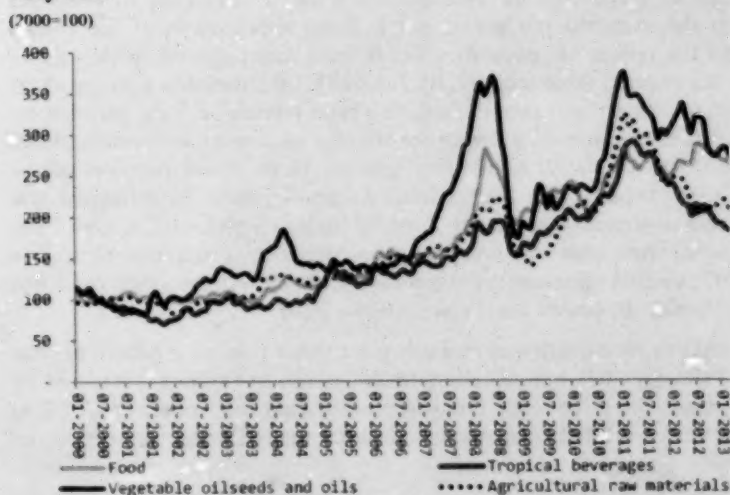
5. The international community adopted a number of initiatives to address the negative effects of excessive food price volatility on vulnerable groups. They include the Agricultural Market Information System (AMIS), the High-level Task Force on the Global Food Security Crisis, the Global Agriculture and Food Security Programme and the Zero Hunger Challenge, a new vision on food security. In the energy market, efforts have been targeted at improving the Joint Oil Data Initiative (JODI-oil), and the creation of a similar initiative for gas, JODI-gas. Threats to food security in the aftermath of the 2008 food crisis have also revived interest in the constitution of regional grain reserves. The international community, including the United Nations Conference on Trade and Development (UNCTAD), and other stakeholders, could contribute actively to building consensus on the grain reserves in order to ensure that vulnerable groups are sufficiently catered to during severe shocks to food markets in the future.

II. Market developments in major commodity groups

A. Agricultural and food crops

6. The UNCTAD all food commodity price index remained at historical heights since early 2011, despite short-term price fluctuations. By February 2011, the price index had surged to an all-time high of 292 points before trending downwards. In July 2012, driven by high prices of major cereals, the price index rose sharply to 283, only 9 points below its historical peak in 2008. It fell steadily to 253 in April 2013, 30 per cent higher than its 10-year average of 195 points.¹ Various subgroups of commodities exhibited different price patterns (see figure II).

Figure II
Price indices of selected food and agricultural commodity groups, January 2000–May 2013



Source: UNCTAD, UNCTADstat.

¹ The 10-year average refers to the average price between May 2003 and April 2013.

7. The UNCTAD food price index fluctuated around an average of 265 points in 2011.² By December 2011, it had fallen to 248 points, a 15-month low, compared to February 2011. Led by high prices of maize, wheat and soybean meal, the price index surged to an all-time high of 286 points in July and August 2012. It then registered a steady decline, reaching 260 points in April 2013, as market fundamentals eased.

8. The maize and wheat markets were tight during the third quarter of 2012, owing mainly to supply disruptions and low stocks (see figure III). A severe drought in the United States of America reduced maize yield prospects, driving up that country's maize prices to a record high of \$334 per ton in July 2012, from \$270 in the previous month. Adverse weather conditions also affected the outlook for wheat production in the Russian Federation, Ukraine and Kazakhstan. Global maize stocks at the end of the 2012/13 season were expected to fall to a six-year low, and global wheat stocks to a four-year low.³ The spike in major cereal prices raised concerns about food shortage in the net food-importing countries and revived the debate on using grains as feedstock to produce biofuels. During the first five months of 2013, maize and wheat prices retreated from their highs in 2012, as the global supply was forecast to recover, in particular in major producing countries. A rebound is expected for wheat production in the Black Sea region and Europe; and for maize in the United States.

9. International rice prices have been relatively stable since 2012, despite short-term price fluctuations. During the first five months of 2013, the benchmark Thailand rice prices averaged \$564 per ton, 1.6 per cent lower than the corresponding period in 2012. Broadly balanced supply and demand, as well as a comfortable level of stocks, underpinned the rice price trend. The impact of Thailand's rice-pledging programme, a rice subsidy programme to support farmers, on the global rice market has been subdued to date. Looking forward, its impact on the availability and the prices of rice in the world market will in large part depend on the pace of the possible release of a large volume of public rice stocks.

10. Sugar prices were stable in the first quarter of 2012, averaging 24 cents per pound. However the expected production surplus, the appreciation of the United States dollar and the retreat of speculative funds from sugar futures market drove prices down in the ensuing three months. By June 2012, the monthly average sugar price had slipped to 20 cents per pound. Despite a brief rebound in July, prices were under downward pressure in the following ten months as a result of bearish global fundamentals outlook for the 2012/13 crop season. In its latest revision of the 2012/13 world sugar balance, the International Sugar Organization estimated that the global production surplus would reach a record high of 9.982 million tons.⁴ The bearish market sentiments were reinforced as hedge funds have been net-short since mid-October 2012, betting on lower sugar prices. By May 2013, the sugar price had dropped to 17.62 cents, the lowest level since August 2010.

11. The UNCTAD vegetable oilseeds and oils price index reached a historical peak (374 points) in February 2011 before falling to 294 points in October 2011. Led by palm oil and soybean, the price index recovered in the first four months of 2012 to reach 337 points in April 2012. The rise of the price index during the summer of

² The UNCTAD covers wheat, maize, rice, sugar, bovine meat, bananas, pepper, soybean meal and fishmeal.

³ International Grains Council, Grain Market Report, No. 424, 26 July 2012.

⁴ International Sugar Organization, Market Report and Press Summary (May 2013).

2012 was to a large extent driven by the surge of soybean prices, which rose by 21 per cent between June and August. Since September 2012, the price index has trended downwards, despite a brief rebound in the first two months of 2013. By April 2013 the price index had dropped to 260 points, a level that has not been seen since August 2010.

12. The soybean market was tight in the third quarter of 2012, owing to concerns about reduced supply in the United States caused by unfavourable weather, robust demand from Asia and low stocks. In August 2012, the benchmark United States soybean prices reached an all-time high of \$684 per ton, an increase of 23 per cent, compared with the level in August 2011. Since the fourth quarter of 2012, the market tended to ease gradually. The average price of April and May 2013 was \$496, compared to \$592 in the first quarter of 2013 and \$604 in the last quarter of 2012. The prospect of bumper soy crops in South America's major exporters, combined with weaker demand growth in China and the European Union and the retreat of major grain prices, underscored the price downturn.

13. The market for tropical beverages was bearish during the past two years, owing mainly to the significant decline of coffee and cocoa prices. Between May 2011 and May 2013, coffee and cocoa lost 39 and 24 per cent, respectively, of their value. The UNCTAD tropical beverages price index reached 290 points in April 2011, the second highest level following the historical record of 385 set in April 1977, before moving downward, with only a brief recovery in the third quarter of 2012.⁵ By April and May 2013, the price index had dropped to 181, its lowest level since August 2009.

14. Coffee composite indicator prices fell steadily after reaching a high of 213 cents per pound in April 2011. By December 2012, the price had dropped to 128 cents. The sustained decline of the coffee composite indicator prices largely mirrored the price trends of Arabica coffee. Higher yield prospects in Brazil, the world's largest Arabica grower, combined with sluggish demand in traditional coffee-consuming countries, weighed on Arabica prices. In contrast, Robusta prices were relatively firm and stable, thanks to the strong demand in emerging markets where soluble coffee consumption is predominant.⁶ During the first five months of 2013, the coffee composite indicator price was less volatile and rebounded slightly from its low in December 2012. However, it was still 19 per cent below its average value over the same period in 2012.

15. Following a bearish year in 2011, cocoa bean prices were relatively stable in 2012 (see figure III). In particular, during the first seven months of 2012, prices fluctuated within a narrow band ranging from 103 to 107 cents per pound. This resulted from the offsetting effects of an expected decline of production in West Africa and a sharp fall in cocoa grindings in Europe and North America, versus resilient demand growth in emerging markets. Prices recovered shortly in August and September owing to uncertainties surrounding supplies from Côte d'Ivoire, which started to reform its cocoa marketing system in early 2012. Since October 2012 the price rally discontinued, owing in part to the expectations of weak demand from the cocoa-processing industry. By March 2013 the cocoa price had dropped to 98 cents, the lowest level since December 2008.

⁵ The UNCTAD tropical beverages price index covers coffee, cocoa beans and tea.

⁶ International Coffee Organization, *Monthly Coffee Report* (March 2013). According to the International Coffee Organization, coffee consumption in the emerging markets increased by 10 per cent from 2011 to 2012, while consumption in traditional markets declined by about 1 per cent.

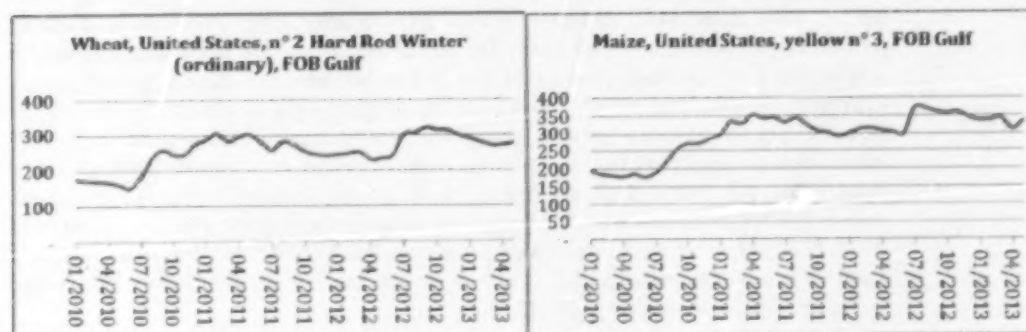
16. The UNCTAD agricultural raw materials price index trended down after reaching a historical peak of 325 points in February 2011 (see figure II).⁷ By August 2012 it had dropped to 200 points, a 33-month low. The price index rebounded in the following months to reach 220 points in February 2013, mainly driven by higher prices of rubber, tropical logs and cotton. However, owing in large measure to the sharp decline of rubber prices, the price index fell to 203 points in April and May 2013, a level close to its low in August 2012.

17. The cotton market was highly volatile in 2011 (see figure III). The cotton outlook index A had plunged to 95 cents per pound by December 2011, 59 per cent below its all-time high in March 2011. Despite a short recovery in early 2012, prices fell again in the second quarter of 2012, owing mainly to supply surplus, the expected surge in global stocks and renewed concerns over the Eurozone economy. The 2012/13 season was marked by lower volatility, owing in part to China's large State cotton reserve.⁸ During the second half of 2012, prices were stable, averaging 83 cents per pound, which is well above the long-term average of 72 cents.⁹ In March 2013, the monthly average price rose to 94 cents, the highest price thus far in 2012/13. This may mirror concerns about a tightening supply and demand balance outside of China.

Figure III

Main agricultural commodity price indices, January 2010-May 2013

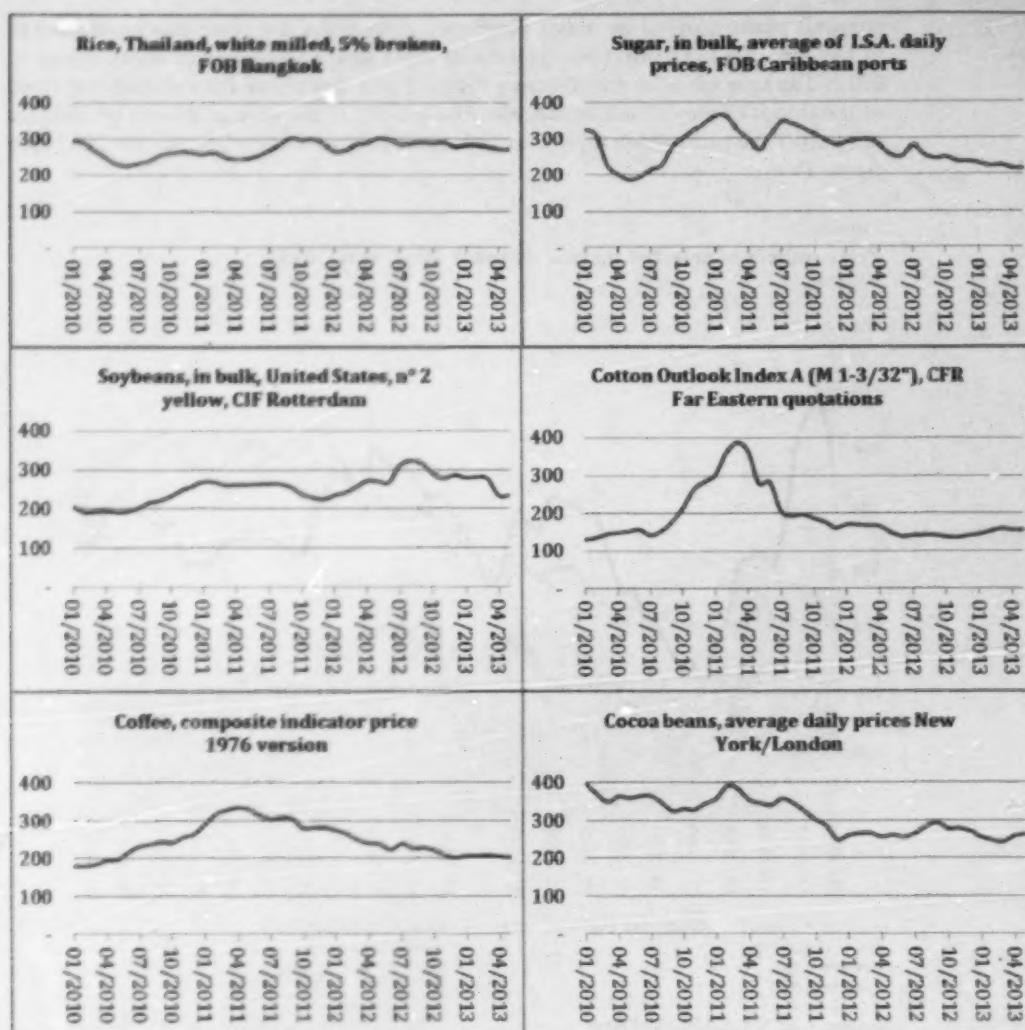
(2000=100)



⁷ The UNCTAD agricultural raw materials price index covers cotton, tobacco, tropical logs, rubber, wool, jute, sisal, hides and skins, and linseed oil.

⁸ China's national cotton reserve is estimated at close to 9 million tons as at the end of June 2013, accounting for about 50 per cent of the global ending stocks in 2012/13. China is projected to hold close to 60 per cent of the global stocks by the end of 2013/14. See the International Cotton Advisory Committee press release, 1 July 2013.

⁹ The long-term average refers to the average price of cotton from January 1974 to May 2013.



Source: UNCTAD, UNCTADstat.

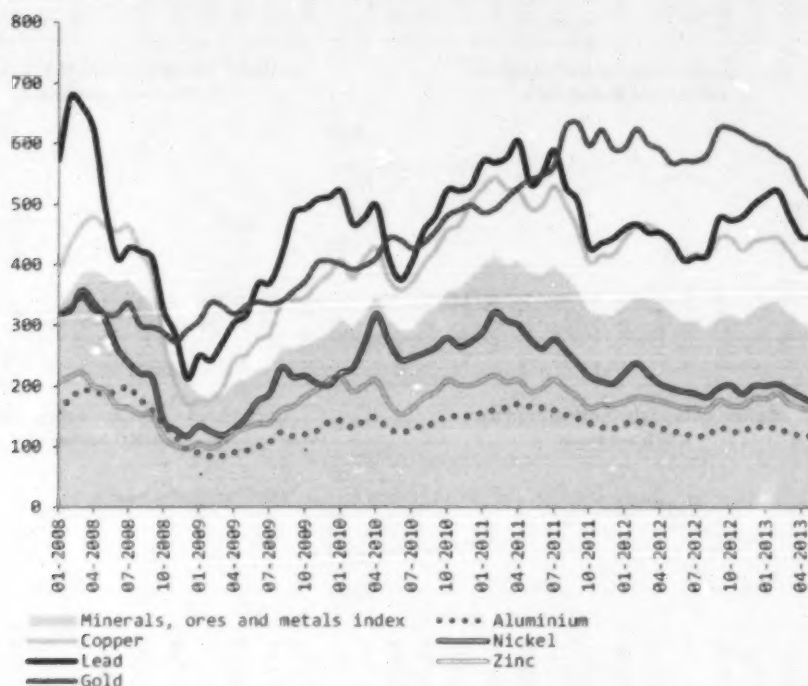
B. Minerals, ores and metals

18. After setting a historical record of 418 points in February 2011, the UNCTAD minerals, ores and metals price index registered a remarkable downturn in the second half of 2011, hitting 317 points in December 2011.¹⁰ During the first two months of 2012, the price index rebounded before receding in the next few months, owing mainly to worsening global economic prospects. In August 2012, the price index hit its two-year low of 296 points. Subsequently, as a result of monetary

¹⁰ The UNCTAD minerals, ores and metals price index covers copper, aluminium, iron ore, nickel, lead, zinc, tin, phosphate rock, manganese ore, and tungsten ore. Gold is not included in the price index.

stimulus plans adopted by major developed economies, the price index rose to 318 in October 2012. The first five months of 2013 saw a similar price trajectory as in 2012. The upward price trend during the first two months of 2013 quickly reversed as the prices of major base metals and iron ore fell in the second quarter of 2013. In May 2013 the price index dipped to 297, close to the low level of August 2012 (see figure IV).

Figure IV
Price indices of selected metals, January 2008-May 2013
(2000=100)



Source: UNCTAD, UNCTADstat.

19. Copper prices rallied in late 2011 and during the first quarter of 2012, driven by strong growth in Chinese copper demand (partly for stockpiling), as well as abundant liquidity in financial markets. By March 2012 the monthly average price had risen to \$8,457 per ton, 15 per cent higher than its low in October 2011. However, the price trend reversed in the second quarter of 2012, owing to slowing growth of industrial activities in China and a deteriorating situation in the Eurozone. Relatively stable prices in July and August were followed by a strong price surge (+7.7%) in September 2012, as market participants responded to the monetary easing in the United States, Eurozone and Japan. In late 2012 and early 2013 the copper market was optimistic on the prospects of economic recovery in the United States and China. Prices rose to \$8,070 in February 2013 before dropping to \$7,203 in April 2013, a level that had not been reached since August 2010. Lower-than-expected growth outlook in major copper-consuming countries, a supply surplus and rising stockpiles contributed to the price correction. According to the International

Copper Study Group, refined copper production is expected to exceed demand in 2013 after three years of consecutive deficits.

20. Aluminium, nickel, lead and zinc exhibited similar price trends as that relating to copper. The recent economic slowdown in China, the weak pace of recovery in the United States and the uncertainty over the economic outlook in the Eurozone have been weighing on the metal prices. Furthermore, the supply surplus in recent years put downward pressure on the prices. The average prices from January to May over the period 2011-2013 steadily declined for aluminium, nickel and zinc, the decline being particularly pronounced for aluminium and nickel, as the average prices during the first five months of 2013 fell below their five-year averages.¹¹ The price of nickel, a crucial raw material used in the production of stainless steel, hit a four-year low in May 2013. Chronic oversupply, high stocks and weakened demand drove the aluminium price down to \$1,830 per ton in May 2013, the lowest level since August 2009.

21. The year 2011 was marked by record high and volatile prices of iron ore, the raw material used for steelmaking. The International Monetary Fund (IMF) iron ore price index averaged 597 points with an all-time high of 666 points registered in February 2011. However, in late 2011, the price index lost 28 per cent from its high in February 2011. The relatively stable prices during the first four months of 2012 were followed by a steady decline in the following five months. The downward price movement can mainly be attributed to high stockpiles, shrinking demand for steel by China's construction and manufacturing industries, and sufficient supply. Since October 2012 prices have rebounded sharply to reach \$155 per dry ton in February 2013, 57 per cent higher than its low in September 2012. Restocking by Chinese steelmakers, disruptions in iron ore production and shipments owing to unfavourable weather conditions and an export ban in India contributed to the price surge. However concerns over China's slowing economic growth and subdued steel demand, combined with expectation of rising iron ore supply drove prices down to \$124 in May 2013, losing 20 per cent relative to the price in February 2013.

22. The gold price has been highly volatile since 2011. After rallying for eight months, the monthly average gold price surged to an all-time high of \$1,772 per troy ounce in September 2011. In the second quarter of 2012, the price averaged \$1,611, sliding from its February high of \$1,743, mainly as a result of weaker demand both from the jewellery industry and from investment, which together represent over 70 per cent of global gold demand. The price quickly recovered and hit a 13-month high in October 2012 as expansionary monetary policies in major developed economies renewed inflationary concerns. However, since November 2012, the gold market has experienced seven months of straight decline. In May 2013, the price hit \$1,414, down 19 per cent from its value in October 2012, although still higher than its five-year average (\$1,315).¹² The steep fall in prices can be explained by multiple factors such as expectations of slowdown in the pace of quantitative easing in the United States, speculation that crisis-hit Eurozone countries would be forced to sell gold reserves, lower inflation expectations (in particular in the United States and Europe), rally in equity markets of developed countries and the liquidation of gold exchange-trade funds. According to the World Gold Council, gold demand in the first quarter of 2013 was down 13 per cent year-on-year as substantial net

¹¹ The five-year average refers to the average price from June 2008 to May 2013.

¹² The five-year average refers to the average price of gold from June 2008 to May 2013.

outflows from gold exchange-trade funds outweighed the strong growth in consumer demand for gold jewellery, bars and coins.¹³

C. Energy

Crude oil

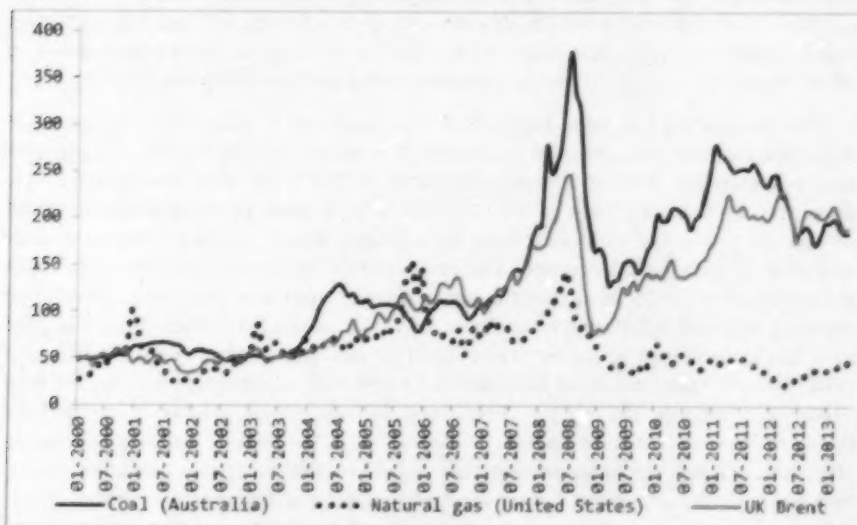
23. Despite geopolitical tensions in the Middle East and elsewhere, world oil production registered a remarkable growth in 2012. Total oil supply increased by 2.8 per cent, in large measure as a result of the substantial increase in the production of the Organization of the Petroleum Exporting Countries (OPEC). Among non-OPEC countries, the most important supply growth came from the United States, where the advances in shale technology has led to rising light tight oil production. In 2012, United States oil supply rose to 9.2 mb/d, up 12.8 per cent from 2011 and is expected to increase by 9.2 per cent in 2013. In the first quarter of 2013, world oil production was estimated at 90.8 mb/d, 0.7 per cent lower than the last quarter of 2012.

24. Oil prices remained high since 2011. The spot prices for the world's most widely quoted benchmark Brent oil averaged \$112 per barrel in 2012, close to the 2011 average of \$111. In March 2012, the Brent oil price surged to \$125, only 7 per cent lower than the historical peak set in July 2008. During the first five months of 2013 prices averaged \$109 (see figure V).

Figure V

Price indices of crude oil, natural gas and coal, January 2000-May 2013

(2005=100)



Source: International Monetary Fund, International Financial Statistics.

¹³ World Gold Council, Gold Demand Trends: first quarter 2013 (May 2013).

25. Having registered relatively stable prices in the second half of 2011, oil prices became more volatile during the first eight months of 2012. Rising geopolitical tensions in the Middle East, intensified speculative activities in the oil derivatives markets, combined with other supply-side constraints (i.e. technical outages in the North Sea) resulted in the surge of oil prices in the first quarter of 2012. In particular, threats by the Islamic Republic of Iran to close the Strait of Hormuz in response to bans placed by the European Union and the United States on its crude exports raised concerns about supply disruptions.

26. However, in the second quarter of 2012, crude prices reversed their upward trajectory. Brent oil prices dropped sharply to an 18-month low in June 2012, down 23 per cent from its high in March 2012. Concerns over oil consumption, increased OPEC supply and rising Organization for Economic Cooperation and Development (OECD) crude stocks contributed to the plunge in oil prices. Disappointing economic data from Europe, the United States and China depressed prices. Despite initial concerns about supply tightening, global oil supplies increased, compared with 2011, owing mostly to the substantial production increase by OPEC. The decline in Iranian crude supply was more than offset by increased production from Libya, Saudi Arabia and Iraq.

27. By the end of June 2012, concerns about supply disruptions re-emerged with renewed tensions in the Middle East. July and August 2012 also witnessed a sharp drawdown on crude inventories in response to the steep increase in OECD refinery demand. Furthermore, financial investors increased their net long positions — betting on rising oil prices — in crude oil futures markets. As a result, Brent crude prices rebounded sharply in July and August 2012 before stabilizing in the following months.

28. During the first two months of 2013, oil prices rebounded again in the context of financial markets rally. The avoidance of the fiscal cliff in the United States and the positive economic data from major oil-consuming countries restored confidence in global economic growth and oil demand. Optimistic market sentiment, combined with rising geopolitical risks (e.g. the January 2013 terrorist attack on an Algerian gas facility) also boosted speculative buying in the oil futures market. The price for Brent oil edged up to \$116 per barrel in February 2013. However, the upward momentum was reversed in the following months with Brent crude falling to \$103 per barrel in April and May 2013. Various bearish factors depressed oil prices: weaker-than-expected economic data from China and the United States; the prolonged Eurozone economic crisis; seasonal lower oil demand owing to refinery maintenance; higher crude production; and the strengthening of the United States dollar.

Natural gas

29. Owing to dissimilar pricing mechanisms, the prices of natural gas vary considerably between different regions. Asia witnessed the highest gas prices, as prices are set mainly by long-term contracts linked to oil prices. In the United States, prices are determined by market fundamentals. The shale gas revolution boosted gas supply in the United States market and exerted downward pressure on gas prices. In Europe, the traditional long-term take-or-pay contracts that guarantee minimum purchase of gas indexed to oil prices have been challenged in recent years as more European buyers opted for supply-and-demand-based gas pricing. According to the International Energy Agency, the spread between United States

benchmark Henry Hub gas prices and Japanese imports reached a record average price difference of \$16 per million British thermal units in mid-2012.¹⁴

30. The United States gas market was marked by low gas prices in 2012, in particular for the first three quarters (see figure V). The average price for the year was \$2.75 per million British thermal units, 31 per cent lower than the price in 2011, and 43 per cent lower than the five-year average (2008-2012). In April 2012, the price dropped further to \$1.95, a level that was last seen almost 13 years ago. The sharp decline in gas prices was due, in large measure, to the recent surge in shale gas production, a warmer winter and record-high stockpiles. United States Energy Information Administration (EIA) data showed that storage levels were 2,479 billion cubic feet for the week ending 30 March, more than 60 per cent above the five-year average for that week.¹⁵ During the first five months of 2013, with improved market fundamentals, prices recovered to \$3.73, compared to \$2.35 during the same period in 2012. In March 2013, the gas price surged to \$3.80, 14 per cent above the February level. A higher demand, owing to colder weather, a tighter supply-and-demand balance and reduced stock levels, helped to lift gas prices. According to EIA, in the last week of March, natural gas storage fell below its five-year average for this time of year.

31. One of the important impacts of low gas prices in the United States is the displacement of coal by natural gas for power generation. In April 2012, for the first time, natural gas and coal achieved an equal share in electric power generation. With rising gas prices in 2013, the share of natural gas in total generation fell below the record levels of April 2012. Despite the recovery of coal's share, EIA expected that coal power plants would in average account for 40.1 per cent of total generation in both 2013 and 2014, well below the typical coal share ranging from 48 per cent to 51 per cent registered between 2001 and 2008.¹⁶

Coal

32. The year 2011 was marked by high prices of thermal coal, the major fuel for electricity generation. In January 2011, the Australian Newcastle thermal coal spot price, the benchmark for the Asia market, surged to \$142 per ton, the highest monthly average since the outbreak of the financial crisis in 2008. In contrast, the thermal coal market was depressed through most of 2012 with the price averaging \$103, 21 per cent below its 2011 average. Since March 2012 the coal price fell steadily, reaching \$93 per ton in June. Despite a slight recovery in the third quarter of 2012, the price dipped to \$88 in October 2012, a 35-month low.

33. The fall of the thermal coal price was to a great degree attributed to ample supply and weak import demand. In China, the world's top thermal coal importer, the deceleration of economic growth in 2012 led to a significant slowdown in coal-fired power generation, thus curbing the demand for thermal coal. In the United States, the switch to cleaner and lower cost natural gas effectively reduced domestic demand for thermal coal. As a result, the thermal coal exports from the United States increased by 53 per cent during the first half of 2012 with exports to Asia

¹⁴ OECD/International Energy Agency, *Medium-Term Gas Market Report 2013: Market Trends and Projections to 2018* (Paris, 2013).

¹⁵ See www.eia.gov/todayinenergy/detail.cfm?id=5910#tabs_NatGasPrices-1.

¹⁶ Energy Information Administration, *Short-Term Energy Outlook* (July 2013).

rising by 29 per cent, compared with the corresponding period in 2011.¹⁷ This exerted downward pressure on coal prices in the well-supplied Asia market.

34. Since November 2012, coal prices rebounded to reach \$102 in February 2013, owing partly to rising seasonal demand and supply disruptions in Australia caused by floods. However, the decline trend reappeared since March 2013 mainly as a result of subdued demand and rising supply.

III. Commodity price and market volatility: coordinated policy responses

A. Causes of excessive commodity price volatility

35. "Day-to-day" price fluctuations in commodity markets are attributes of normally functioning markets. Excessive volatility is observed when price variations surpass some "normal" threshold for some relatively long time. For example, the standard deviation of the prices of wheat, maize, rice and soybeans over the period from 1980 to 2012 (excluding the year 2008) were 15.5 for wheat, 11.4 for maize, 21.8 for rice and 24.5 for soybeans. In 2008 alone, standard deviations in prices were 67.5 for wheat; 37.0 for maize; 185.8 for rice and 89.9 for soybeans.¹⁸ This was an example of excessive price volatility which hurt consumers and producers, particularly in food-importing developing countries. As the charts in the previous section illustrate, excessive volatility has been combined with relatively high prices in the past five years.

36. Several factors explain the high volatility in commodity markets and prices, including demand-side and supply-side determinants as well as macroeconomic policy variables. The magnitude of the price hikes and volatility in commodity markets and their causes have been discussed at length elsewhere, including in the previous report on world commodity trends and prospects, submitted in 2011 (A/66/207).

37. On the demand-side, global population growth and changing dietary patterns among the rising middleclass in emerging economies have not only exerted upward pressure on food commodity prices, but also created instability in food markets that have had to adjust to these new trends. As discussed in detail in the 2011 *World commodity trends and prospects* report, excessive speculative activities in the commodities sector have also continued to weigh in on price volatility, given the unpredictable nature of fund managers' decisions, solely driven by short-term profits.¹⁹ From \$15 billion in 2003, speculative investment in commodity indices was estimated to have increased to \$451 billion by April 2013.

38. Some countries have taken steps to address this thorny issue. In 2011, for example, the Dodd-Frank Wall Street Reform and Consumer Protection Act directed the United States Commodity Futures Trading Commission to limit the size of speculators' positions in commodity derivatives markets. The European Union is

¹⁷ Energy Information Administration, Quarterly Coal Report (April-June 2012).

¹⁸ Calculated based on UNCTAD Statistics database.

¹⁹ Institute for Agricultural and Trade Policy, "Excessive speculation in agricultural commodities: selected writings from 2008-2011".

also reforming its futures markets to enforce speculative positions and reporting requirements in order to promote transparency in the markets.

39. On the supply side, traditional factors, such as changing weather patterns, have been associated with high food price volatility. In 2012, for example, the worst drought in the United States since the 1930s sent corn and soybean prices to record highs in the second half of 2012. The commodity price boom since 2002 has also been underpinned by supply constraints resulting mainly from underinvestment over the past two decades in both the agricultural and extractive sectors. In addition, uncertainty has been heightened by the recent diversion of food for biofuels and trade policy measures such as export restrictions that have been used by a number of countries in the past few years.

40. In the energy sector, high and volatile oil prices have partly resulted from geopolitical factors, such as the fear of political instability (e.g. high tension in North Africa and the Middle East, particularly the threat to block the Strait of Hormuz, where about 20 per cent of all oil traded worldwide is located), which may disrupt production and shipment of oil in major oil-exporting countries. Production cut threats by OPEC also contributed to oil price volatility. In addition, the increasing linkages between energy (oil, gas, and agrochemicals) and agricultural markets (maize, wheat, and soybean) have created a system whereby a shock to one product affects the other products, generating more instability.

41. Macroeconomic policies in major economies have also played an important role in fuelling excessive commodity price volatility. For example, the depreciation of the United States dollar has prompted currency investors to switch to exchange-traded funds and notes with short maturity, generating commodity price volatility. Price instability has also resulted from low interest rates and loose monetary policy adopted by major central banks over the past five years. The uncertainty over future monetary policy has contributed to perpetuating the problem of price instability. In addition, trade-distorting policies, including export restrictions used by a number of producing countries, have fuelled hoarding and panic-buying, increasing volatility in commodities markets.

B. Addressing excessive commodity price volatility through coordinated international efforts

42. The high price level and excessive volatility of commodities have constituted a major threat to development efforts, particularly in low income, net food-importing developing countries, where as much as 70 per cent of household expenditure is on food.²⁰ The international community called upon international commodities organizations and relevant international organizations to strengthen their coordination in their common quest for finding solutions to the issue of excessive

²⁰ The household expenditure on food as a percentage of total expenditure in selected countries is 58.7 in India, 60.6 in Indonesia, 74.8 in Kenya, 54.7 in Papua New Guinea and 81.6 in Rwanda. Data from: L. C. Smith, A. Subandoro, *Measuring Food Security Using Household Expenditure Surveys* (Washington, D.C., IFPRI, 2007), tables 7 and 8, pp. 76 and 77.

commodity price volatility.²¹ Several initiatives, briefly reviewed below, have been established at the international level.

43. The Agricultural Market Information System (AMIS) was established at the initiative of the G20 in the wake of the 2008 food crisis in order to improve market information and transparency. At its November 2010 summit in Seoul, the G20 adopted the Seoul Summit Document which, among other things, invited relevant international organizations to prepare proposals on policy responses to excessive price volatility in food and agricultural markets.²² To this effect, a report prepared by the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agriculture Development (IFAD), IMF, OECD, UNCTAD, World Food Programme (WFP), the World Bank, the World Trade Organization (WTO), the International Food Policy Research Institute (IFPRI) and the United Nations High-level Task Force on the Global Food Security Crisis, was presented to the G20 ministers of agriculture in June 2011 in Paris. One of its recommendations was to establish AMIS, which would involve collaborative efforts from all relevant international institutions in order to improve agricultural and food data reliability and timeliness, while ensuring enhanced policy coordination during food crises. This recommendation was endorsed by the G20 and AMIS was launched on 15 September 2011 in Rome.

44. AMIS is fast becoming a major source of global public data on food markets. Through its focal points in participating countries, AMIS collects data on four major food commodities: wheat, maize, rice and soybeans. Data on production, supply, utilization, trade, ending stocks, and prices as well as forecasts, are analysed, consolidated and published through the AMIS monthly monitor to make it available to the wider public. It is expected that this will limit speculation and panic-buying of the four crops and help to stabilize their prices. Although there is no hard evidence, access to market data might have averted another food crisis in 2012 as commodities market actors noted the existence of better market fundamentals than in 2008.

45. The High-level Task Force on the Global Food Security Crisis was also established in reaction to the 2008 food crisis in April 2008 by the United Nations Secretary-General. It brings together 23 institutions, including United Nations specialized agencies, funds and programmes, as well as parts of the United Nations Secretariat, the World Bank, IMF, OECD and WTO. Its main objective was to prepare a comprehensive and concerted plan of action in response to the challenge of achieving food security for all. The plan was produced in September 2010 in the form of an updated comprehensive framework for action. It outlined policies and actions aimed at responding to the immediate needs of food deficient countries such as the provision of food assistance and social safety nets. The framework also offered a menu of policies to address long-term and structural issues such as the need to invest in developing countries' agriculture in order to avert future food crises. Furthermore, the framework puts forward a number of actions relevant to

²¹ For example, the G20 Seoul Summit endorsed the Multi-Year Action Plan on Development, in November 2012, to address, among other pressing issues, food price volatility.

²² FAO and OECD, "Price volatility in food and agricultural markets: policy responses", policy report including contributions by FAO, IFAD, OECD, UNCTAD, WFP, the World Bank, WTO, IFPRI and the United Nations High-level Task Force (2 June 2011).

particular needs of the populations that are most vulnerable to the negative effects of food crises.²³

46. The High-level Task Force has contributed to galvanizing action by the international community around the need to find solutions to the scourge of food insecurity. The scaling-up of resources and better coordination among stakeholders have been two overriding objectives of the High-level Task Force. A recent evaluation of its work²⁴ noted with satisfaction that it has been able to adapt to the changing nature of the challenge of food insecurity over the past five years. It was able to move from its original narrow focus on food prices to a broader understanding of the complexity of food and nutrition security. Overall, the High-level Task Force has been credited with success in efficiently coordinating a large number of stakeholders while providing good value. Had the Task Force had not been created and worked successfully, approaches to attaining food and nutrition security would have remained fragmented and their response would have been significantly less efficient.

47. The Global Agriculture and Food Security Programme is a multilateral mechanism designed to assist in the implementation of pledges made by the G20 in Pittsburgh in September 2009 and to contribute to the achievement of Millennium Development Goal 1 to cut hunger and poverty by half by 2015. Its main objective is to address the underfunding of country and regional agriculture and food security strategic investment plans already being developed by countries in consultation with donors and other stakeholders at the country level. It has public and private sector financing windows, with the former devoted to assisting strategic country-led or regional programmes that result from sector-wide country or regional consultations and planning exercises, such as the Comprehensive Africa Agriculture Development Programme in Africa. The private sector window is designed to provide long and short-term loans, credit guarantees and equity to support private sector activities for improving agricultural development and food security. As at end-May 2013 donors had contributed approximately \$959.8 million, amounting to about 70 per cent of the total pledge of \$1.3 billion made to both windows.²⁵

48. The Zero Hunger Challenge is a new vision about food security established in 2012. It revolves around the principle that hunger can be eliminated in our lifetime. It is a collaboration effort between several United Nations and non-United Nations agencies that share the objective of eradicating hunger in the world. The Challenge has five goals that direct its efforts towards achieving its overall objective. They are: 100 per cent access to adequate food all year round; zero stunted children less than 2 years old; sustainability of all food systems; 100 per cent increase in smallholder productivity and income; and zero loss or waste of food.²⁶

49. In order to reduce price volatility in the oil and gas sector, the main objective of the international community, mainly through initiatives by the G20, has been to make markets more transparent and hence, predictable and stable. Efforts have centred on the ways to improve the Joint Oil Data Initiative (JODI), established in 2000 to increase information availability about oil markets, with the understanding that greater transparency will facilitate market stability. Recently, the G20 Energy

²³ See www.un.org/en/issues/food/taskforce/background.shtml.

²⁴ See http://un-foodsecurity.org/sites/default/files/HLTF_Final%20Report_Volume%20I.pdf.

²⁵ For further details, see www.gafspfund.org/content/about-gafsp.

²⁶ See http://un-foodsecurity.org/sites/default/files/EN_ZeroHungerChallenge.pdf.

Sustainability Working Group has been actively discussing possible improvements to the Initiative. One area identified for possible improvement is ensuring availability and comparability of relevant data on physical and financial markets. In this respect, it is important that the International Energy Agency, the International Energy Forum and OPEC combine expertise and experience to actively work together to propose possible measures that could be taken to increase transparency in the energy market. Hence, more work is needed, particularly at the operational level, before the issue of excess volatility in the oil sector can be properly addressed.

50. The relative success of JODI has prompted calls to extend it to natural gas, in order to increase transparency in the gas sector. This idea has been well received by stakeholders, including the United Nations. Hence, the second gas data transparency conference held in May 2012 in Doha formally recommended the creation of JODI-gas. This issue has been taken up by the G20 and it has been on the agenda of recent G20 Energy Sustainability Working Group discussions. According to the International Energy Forum, a beta version of the JODI-gas database was launched on 16 January 2013; the public launch of JODI-gas is scheduled for late 2013.²⁷

C. Regional arrangements for creating physical grain reserves²⁸

51. The 2008 food crisis exposed weaknesses in the international food system that disproportionately threaten the world's poor. Observers suggested then that attention be refocused attention on grain food reserves to address this crisis and avoid future similar situations. Grain reserves' main aims are to: (a) stock essential food grains that will be used to feed vulnerable populations during times of acute crisis; (b) smooth consumption by improving the distribution of food grains across time and space; and (c) stabilize prices through direct purchasing and selling of grain to prevent volatility and price extremes.

52. The first two objectives are viewed as responding to emergency supply purposes, whereas the latter addresses the issue of extreme price volatility. Despite the many past instances where grain reserves were unable to significantly affect price levels, they remain relevant as instruments used to prevent and/or better cope with future food crises. The general arguments may be framed as follows:

(a) Food security strategies based on spot transactions on the market instead of physical reserves may be cheaper and more flexible to operate during good times but they were unsustainable for Governments with limited resources during a period of crisis;²⁹

(b) Since it is impossible to guarantee that major food exporting countries will continue exporting during future crises, any multinational physical grain stocks must include ownership and location provisions that guarantee access to import-dependent countries;

²⁷ See www.jodigas.org/update-on-jodi-gas-05-june-2013-web.pdf.

²⁸ This section is based on UNCTAD, *Commodities and Development Report. Perennial Problems, New Challenges and Evolving Perspectives* (2013).

²⁹ C. Peter Timmer, "Reflections on food crises past", *Food Policy*, vol. 35, No. 1 (2010), pp. 1-11.

(c) Regional specificities and logistical constraints imply that regional bodies provide the most cost-effective, responsive management of these multinational grain reserves.

53. Some initiatives are under way to establish regional physical grain reserves. The Association of Southeast Asian Nations (ASEAN) Emergency Rice Reserve has been in place since 1979. In October 2011, ASEAN agreed on a new, strengthened version of the reserve, called the ASEAN-Plus-Three Emergency Rice Reserve.³⁰ The size, funding and coverage of the reserve were significantly expanded by the addition of China, Japan and the Republic of Korea. The size of the reserve was increased almost tenfold to 787,000 tons. It comprised the existing 87,000 tons from the ASEAN Emergency Rice Reserve, plus 300,000 tons from China, 250,000 tons from Japan and 150,000 tons from the Republic of Korea. In addition, it was decided that the reserve would be managed and owned regionally, instead of by member States, and would be stored in China, Japan, the Republic of Korea and the ASEAN countries, and would be dependent on food import needs. The objectives of the ASEAN-Plus-Three Emergency Rice Reserve were also revised: from a simple emergency reserve, it added the more ambitious objective of acting as a tool for stabilizing rice prices in the region.³¹

54. A similar initiative is the Latin America and Caribbean Emergency Response Network, but its mandate is narrower than that of a regional grain reserve operated by member State Governments. It is mainly devoted to servicing emergency response efforts in the region by WFP and its partners.³²

55. In addition to these examples, regional grain reserves are at varying stages of negotiation in many regions.

56. In South Asia, the South Asian Association for Regional Cooperation (SAARC) began discussing the establishment of a regional grain reserve in 1988. In 2007, the group signed an agreement to create the regional SAARC Food Bank. The agreement committed the eight SAARC member States (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) to earmark a regional reserve of approximately 242,000 tons of grain, with India providing 150,000 tons. The size of the planned reserve was later increased to nearly 500,000 tons. The reserve is limited to an emergency response mandate and is triggered by a request from one member State to the others.³³ Despite being signed into force, the creation of the SAARC Food Bank has stalled, owing to hesitations among member states about the release of contributions to the Food Bank, its triggers and its maintenance.

³⁰ ASEAN, "Eleventh AMAF-Plus-Three-Countries Conclude Agreement on Rice", *ASEAN Secretariat News* (2011). Available from www.asean.org/news/asean-secretariat-news/item/11th-amaf-plus-three-countries-conclude-agreement-on-rice.

³¹ ASEAN Plus Three Emergency Rice Reserve, "How APTERR works". Available from www.apterr.org/index.php/how-apterr-works.

³² Raul Balletto and Stephanie Wertheimer, "Emergency preparedness tools and activities in Latin America and the Caribbean", in *Revolution: From Food Aid to Food Assistance: Innovations in Overcoming Hunger*, Steven Were Omamo, Ugo Gentilini and Susanna Sandström, eds. (Rome, World Food Programme, 2010), pp. 275-294. Available from <http://home.wfp.org/stellent/groups/public/documents/newsroom/wfp225646.pdf>.

³³ SAARC, Agreement on establishing the SAARC Food Bank. Available from www.saarc-sec.org/userfiles/FoodBank.doc.

57. In Africa, the Southern African Development Community (SADC) member States (Angola, Botswana, the Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, the United Republic of Tanzania, Zambia and Zimbabwe) have been discussing the creation of a regional food reserve since the 1980s. In 2000-2001, they designed the initial plan for the Regional Food Reserve Facility. To date, the plan calls for an ambitious set of objectives, including price stabilization and emergency response. The reserve would have 500,000 tons of food. SADC has completed the initial exploratory phases of the Reserve Facility, but its implementation has stalled prior to the feasibility stage, owing to disagreements among member States about the reserve's cost and the breadth of its mandate.³⁴

58. The most recent regional reserve initiative involves the Economic Community of West African States (ECOWAS). In 2009, IFPRI and the World Bank proposed that ECOWAS implement a reserve system called Pre-Positioning for Predictable Access and Resilience, aiming to (a) cover initial 30 days of food needs in the event of an emergency, and (b) raise a budget that would enable the group of countries to trade on the futures market in order to adjust prices and/or procure an additional 60 days of food needs. The reserve system would be triggered by volatility on the international commodity markets, not by a Government request or by a natural disaster. Lastly, non-governmental organizations have highlighted the value of village grain banks in countries such as Burkina Faso, Mali and the Niger, arguing that they offer the benefit of an immediate response in the event of a food shortage.

59. The effectiveness of physical grain reserves depends on a number of factors, including their management and cost. Given the recurrence of food crises, this issue is expected to remain prominent as one among many possible solutions to extreme food price instability. UNCTAD and its partners should continue to monitor its development in order to provide relevant advice to net-food importing countries exposed to the vagaries of extreme commodity price volatility.

IV. Concluding remarks

60. The factors that contributed to engendering high commodity price volatility over the period covered include traditional supply and demand factors, such as the weather, demographic factors and changing consumption patterns in emerging economies. However, these have been exacerbated by financialization of commodities which has spawned increased speculation, as illustrated by the dramatic increase in speculative investment in commodity indices.

61. The international community has responded by adopting a number of initiatives aimed at addressing the negative effects of excessive price volatility on vulnerable groups. AMIS, the High-level Task Force on the Global Food Security Crisis, the Global Agriculture and Food Security Programme and the Zero Hunger Challenge are targeted at the agricultural and food sectors. Improvements to JODI-oil and the creation of JODI-gas are focused on countering excessive price volatility in energy markets. There is also a revived interest in the constitution of regional

³⁴ J. K. Rwelamira, SADC Regional Food Reserve Facility, seminar on a framework for the establishment of a regional food reserve facility, presented at the National Agricultural Marketing Council, Pretoria, 27 March 2009.

grain reserves in the aftermath of the 2008 food crisis and subsequent threats to food security. It is important, however, to note that these new proposals for grain reserves are different from buffer stocks, and their main objective is not to stabilize prices, but to enhance access to food (particularly for vulnerable groups) in situations of excessive price volatility where markets have collapsed, as in the 2008 crisis. Furthermore, proponents have been at pains to emphasize the need for a clearly developed trigger mechanism and an objective definition of the conditions under which the trigger could be activated, as well as the need to ensure that the reserves are professionally managed in a manner that assures good quality grains and keeps cost low.

62. The international community, including UNCTAD and other stakeholders, could contribute actively to building consensus on the relevance of grain reserves in order to ensure that vulnerable groups are sufficiently catered to during severe shocks to food markets in the future.